ROE interpretation,[151] as done in the Cascade Natural Gas Corporation 2020 rate case in Docket UG-200568.[152]

118 The CAPM introduces a measure of risk (beta) to cost of capital analysis and requires one to determine a risk-free rate, beta coefficient, market risk premium, and expected market return. In determining the risk-free rate, Bulkley relies on three sources for the proxy companies: (1) the current 30-day average yield on 30-year U.S. Treasury bond, (2) average projected 30-year U.S. Treasury bond yield for Q2 of 2023, and (3) the average projected 30-year Treasury bond yield for 2024 through 2028.[153] To establish the beta, Bulkley uses the Bloomberg and Value Line beta coefficients for the proxy companies based on the Standard and Poor's 500 (S&P 500) and New York Stock Exchange (NYSE) respectively.[154] Bulkley calculates the expected market return of 12.5 percent using the same methodology in the DCF model but based on the S&P 500 companies. Those inputs produce a market risk premium range of 8.60 to 8.79 percent and a subsequent CAPM ROE range of 10.33 percent to 11.38 percent.[155]

119 Bulkley finds other models reach similar results. She determines that the risk premium (RP) analysis, which adds a risk premium to the yield on a company's long-term debt assuming the company's return on equity will be greater than the return on company bonds, results in a recommended ROE range of 10.23 percent to 10.32 percent.[156] The Expected Earnings (also known as the Comparable Earnings) analysis, which uses the return earned on book equity investments by companies of comparable risk as a measure of a fair return, results in a range of 11.25 percent (mean) and 11.31 percent (median).[157] The ECAPM model "addresses the tendency of the 'traditional' CAPM to underestimate the cost of equity for companies with low beta coefficients such as regulated utilities."[158] Bulkley finds this model results in an ROE range of 10.87 percent to 11.66 percent.[159]

120 Company witness Nikki L. Kobliha provides testimony in support of the Company's requested hypothetical capital structure. Kobliha recommends a capital structure of 48.72

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[151] *Id.* at 36:7-14.

[152] *Id.* at 33:1-5.

[153] *Id.* at 38:4-9. Those percentage are 3.71, 3.82, and 3.9 percent respectively.

[154] *Id.* at 38:11-20. Bulkley also considers an additional analysis but those results fall within the same range so is not further detailed here.

[155] *Id.* at 39:2-10, 41:15-16.

[156] *Id.* at 43:3, 45:2-10.

[157] *Id.* at 47:6-12.

[158] *Id.* at 41:3-5.

[159] *Id.* at 40:2-6, 41:16-17.

percent long-term debt, 0.01 percent preferred stock, and 51.27 percent common stock equity.[160] Company witness Bulkley provides a comparison of equity ratios using their proxy group which ranged from 45.95 percent to 61.06 percent in support of the Company's proposed structure.[161] Combined with the Company's requested ROE of 10.3 percent, this results in an overall rate of return (ROR) of 7.60 percent.[162]

121 Kobliha does not include short-term debt in the proposed capital structure for three reasons. First, Kobliha argues the significant variability in short-term debt balances with periods of a zero balance. Second, Kobliha contends that during the previous two rate proceedings short-term debt had "no practical impact."[163] Finally, the Company submits that it is entering a period of major clean energy investment and contends including short-term debt in the capital structure double counts the financing in rate base and construction work in progress.[164]

122 The Company believes it is necessary to maintain the equity component at a minimum level of 51 percent to maintain its current credit rating and provide the lowest financing costs for the necessary investments in clean energy, which Kobliha argues ultimately benefits customers through the cost of capital component of rates.[165]

123 Kobliha provides the Company's current credit ratings as shown below:[166]

	Moody's	Standard & Poor's
Senior Secured Debt	A1	A+
Senior Unsecured Debt	A3	A
Outlook	Stable	Stable

124 Bulkley testifies that regulated utility sector rating outlooks are currently negative for both Moody's and S&P given current economic challenges and negative cash flows

[160] Kobliha, Exh. NLK-1Tr at 2, Table 1. This is based on a five-quarter average for the 12-month period ending Dec. 31, 2024, with actual costs through Jun. 30, 2022.

[161] Bulkley, Exh. AEB-1Tr at 69:14-18.

[162] Kobliha, Exh. NLK-1Tr at 2, Table 1.

[163] *Id.* at 3:5-9.

[164] Kobliha, Exh. NLK-1Tr at 3:15-19.

[165] *Id.* at 4:8-13, 4:16-22, 11:3-8.

[166] *Id.* at 7, Table 2. Kobliha also notes the stand-alone credit rating for PacifiCorp was recently downgraded by S&P from 'a' to 'bb+' but submits that this does not impact the Company's "Excellent" issuer credit rating or business risk classification. Kobliha, Exh. NLK-1Tr at 15:1-5.

associated with capital spending requirements.[167] Further, Bulkley contends that it is appropriate for the Company's equity ratio to increase based on the same economic factors and capital spending needs to meet the requirements of CETA as compared to the proxy group risk profiles.[168]

Response Testimony

125 Staff witness David C. Parcell recommends an ROE of 9.5 percent based on the lower end of their modeling range. Parcell argues this recommendation appropriately recognizes the reduced risk of a MYRP and the gradualism principle.[169] Further, Parcell notes this recommendation is for year one of the MYRP as the Company did not provide the data "necessary to perform [cost of capital] analysis for the second year…," as requested by Staff through four Data Requests.[170] Parcell performs an economic assessment of five factors to support their modeling inputs. These factors are: the level of economic activity; the stage of the business cycle (considering five full cycles); the level of inflation; the level and trend of interest rates; and current and expected economic conditions.[171]

126 However, Staff witness Parcell's economic testimony primarily relies on their perspective on current and expected inflation and interest rates, arguing that "consensus forecasts of inflation have been in a declining range from about 3.75 percent made in 2022 to 2.4 percent in the early portions of this year…These forecasts of declining rates [are] relevant in the context of the MYRP which considers future levels of property, capital expenditures and capital costs…."[172] Further, Parcell contends investors consider this information and therefore, "any perceived impacts of inflation and interest rates are already incorporated in stock and other security prices and as a result, an analysis of the current COC…."[173] Finally, Parcell considers the Company's recent credit rating

[167] Bulkley, Exh. AEB-1Tr at 70:6-8, 71:4-8.

[168] *Id.* at 74:6-10, 68:6-8.

[169] Parcell, Exh. DCP-1T at 4:19-5:2.

[170] Parcell, Exh. DCP-1T at 2:7-11. See DCP-20 through 23 (Staff Data Requests 15, 77, 78, 79). The Company responded to the first request arguing the information was highly confidential. However, in the final three Data Requests, the Company responded it was unable to provide the information due the downgrade in the Company credit rating outlook.

[171] *Id.* at 8:14-20. *See also* DCP-4.

[172] *Id.* at 15:4-10.

[173] *Id.* at 16:14-17.

downgrade but argues this revised rating remains above most electric utilities, including PSE and Avista.[174]

127 Parcell selects 15 proxy companies to use in their cost of capital analysis based on the following criteria:

- Market 'cap' of $1 billion to $30 billion;[175]
- Common equity ratio 40% to 60%;
- Value Line Safety of 1 or 2;
- Moody's or S&P's bond ratings of A or BBB; and
- Currently-paid dividends and no reduction in dividends in the past five years.[176]

128 Parcell uses the current annualized dividend rate and quarterly average stock prices for May through July 2023 to determine the yield component of Staff's DCF analysis.[177] To determine the growth rate, Parcell uses five growth indicators: (1) the five-year average earnings retention for 2018 through 2022 from Value Line; (2) the five-year average historic growth rate in Earnings Per Share (EPS), Dividends Per Share (DPS), and Book Value Per Share (BVPS) from Value Line; (3) projected earnings retention growth from Value Line for 2023, 2024, and 2026 through 2028; (4) a combination of historical EPS, DPS, and BVPS for years 2020 through 2022 with projections from 2026 through 2028; and (5) the five-year consensus projected EPS growth from First Call and Zacks.[178] Parcell contends these data appropriately characterize information considered in investor decision making.[179]

129 Staff's DCF analysis results in recommended ROE range between 7.4 and 9.9 percent. Parcell recommends the high end of the mean and median results (9.6 – 9.9 percent) with a mid-point of 9.75, "result[ing] in a favorable DCF ROE result for the proxy group."[180]

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[174] *Id.* at 19:15-20:19.

[175] Parcell calculates a hypothetical market cap for PacifiCorp of $17 billion to base the market cap range when selecting the proxy group. This calculation is based on PacifiCorp's 2022 book value of $10.7 billion and a general market-to-book ratio for electric utilities of 160 percent. *See* Parcell, Exh. DCP-8 note.

[176] Parcell, Exh. DCP-1T at 32:19-33:4.

[177] *Id.* at 34:13-20.

[178] *Id.* at 35:13-30.

[179] *Id.* at 36:1-6.

[180] *Id.* at 37:5-10.

130 In responding to the Company's results, Parcell criticizes Bulkley's DCF analysis for exclusive reliance on the highest growth rate for EPS (ignoring two other growth rates) implying investors are only considering the best-case scenario when making their decisions. Further, Parcell reasons that if all growth rates are considered in Bulkley's DCF analyses the results are better aligned with Staff's analysis (8.17 percent to 10.53 percent).[181]

131 In determining the risk-free rate for a CAPM analysis, Parcell relies on a three-month average yield for the 20-year U.S. Treasury Bond for the period of May through July 2023. [182] To establish the beta coefficient, Parcell uses the Value Line betas for each proxy company.[183]

132 Parcell develops the market risk by comparing the annual ROEs for the S&P 500 companies with the 20-year U.S. Treasury bond yield which results in a differential average of 7.8 percent for the period 1978 through 2022.[184] Additionally, Parcell calculates the differential of the total returns for the S&P 500 and long-term government bonds, which results in an arithmetic and geometric mean of 6.4 percent and 4.9 percent respectively. Finally, Parcell uses the average of all three results to determine an expected risk premium of 6.4 percent.[185]

133 This analysis results in Parcell's finding of a CAPM ROE of 9.75 percent based on this midpoint of the mean and median results, 9.7 and 9.8 percent respectively.[186] Finally, Parcell argues that current Federal Reserve monetary policy gives weight to the CAPM in consideration of determining ROE in this proceeding. [187]

134 Parcell disagrees with Bulkley's CAPM results primarily because they utilize the Company's DCF results as an input which relied exclusively on the highest EPS growth rate and therefore overstates the resulting ROE.[188] Additionally, Staff disputes Bulkley's

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[181] *Id.* at 38:3-39:1.

[182] *Id.* at 40:12-15.

[183] *Id.* at 40:21.

[184] *Id.* at 8-13.

[185] *Id.* at 41:8-42:3.

[186] *Id.* at 42:9-16.

[187] *Id.* at 42:20-43:6.

[188] *Id.* at 44:1-7.

use of the ECAPM on the basis it "arbitrarily ignores the actual betas of the proxy utilities and, instead, assigns hypothetical betas to them."[189]

135 In completing Staff's Comparable Earnings (CE) analysis, Parcell asserts their analysis using market-to-book (M/B) ratios creates a "market test" and therefore overcomes criticism that past earnings do not correlate to future expectations for cost of capital.[190]

136 Parcell assesses realized ROEs and M/B ratios for both their proxy group and unregulated companies using the S&P 500. For the ROEs, Parcell considers both a historical period (2002 through 2020) and two ranges of projected data using the years 2021 through 2024 and 2026 through 2028 separately.[191] The mean and median results are shown below.

Table 4: Parcell's ROE and M/B Analysis192

	Proxy Group	S&P 500
Historic Periods ROE		
Mean	9.2 – 9.3	12.4 – 14.2
Median	9.2 – 9.3	
Historic M/B		
Mean	147 - 162	275 - 288
Median	143 - 156	
Current Period ROE		
Mean	9.3 – 10.1	
Median	9.0 – 9.5	

137 Parcell testifies their CE analysis confirms that regulated firms (proxy companies) are less risky than the S&P 500 and therefore relies only on the proxy group results to formulate Staff's CE recommendation. Parcell contends the CE results support an authorized ROE of no greater than 9.0 to 9.5 percent, as this range provides a favorable environment for financial integrity as M/B ratios substantially exceed 100 percent at that rate.[193]

[189] *Id.* at 44:19-21.

[190] *Id.* at 46:2-15.

[191] *Id.* 46:18-47:5; DCP-12 at 1. Parcell's historical year groupings are not consistent between the proxy group and S&P 500 due to the available data for ROEs from Value Line (includes 2021 and 2022 in the "current business cycle" of 2009-2020 for their proxy group). There is also no explanation for the exclusion of 2025 from the data set.

[192] *Id.* at 47:11-48:8.

[193] *Id.* at 48:20-49:9.

138 Staff disagrees with Bulkley's Expected Earnings approach as it relies only on Value Line's expected return on equity for the Company's proxy group without any consideration of the book value, which Parcell argues is embedded in rate of return regulation and investors' investment consideration. [194] Parcell also notes the majority of the Company's proxy group are holding companies and that the ROEs for these holding companies "are substantially higher than the authorized ROEs for electric utilities."[195]

139 Parcell relies on a shorter assessment period than the Company, using authorized ROEs of electric utilities from 2012 through 2022, but further restricts their analysis to 2012 through 2019 as, Parcell contends, interest rates were similar to recent (pre-COVID) levels and single A-rated utility bonds for the same period.[196] However, Parcell includes an adjustment to take into consideration the lag between the interest rate included in preceding analyses and when the ROE decisions were entered.[197] Additionally, Parcell testifies the results of that initial historical analysis are not appropriate based on current yields. Therefore, Parcell accepts Bulkley's inverse relation assumption between risk premium and interest rates and performs an additional adjustment to account for this relationship.[198] These calculations result in a ROE range of 10.0 percent to 10.25 percent.[199]

140 Parcell provides several criticisms of the Company's Risk Premium analysis, including that Bulkley uses too long of an analysis period (1992- January 2023), relies on 30-year U.S. Treasury bonds that do not reflect more recent Federal Reserve policies, and ignores risk differences (diversification, deregulation, prevalence of favorable regulatory mechanisms) that have impacted utility risk.[200] Further, Parcell argues Bulkley's regression analysis "does not properly capture the current relationship between authorized ROEs and interest rates, as it assumes that there are no factors other than interest rates that impact risk premiums over the study period going back to 1992."[201]

141 With regards to the Company's capital structure, Parcell recommends the Commission use the Company's capital structure from the 2015 general rate case, in Docket UE-152253, in which the structure was fully litigated, as it "is similar to recent actual ratios

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[194] *Id.* at 49:17-50:10.

[195] *Id.* at 50:18-20.

[196] *Id.* at 53:10-16.

[197] *Id.* at 53:10-54:10.

[198] *Id.* at 55:16-56:2.

[199] *Id.* at 55:19-56:18.

[200] *Id.* at 51:8-52:4.

[201] *Id.* at 52:22-53:2.

and is consistent with capital structure of other utilities…provid[ing] a balance of safety and economy."[202] Parcell accepts the Company's cost of long term debt and preferred stock and uses the Company's actual cost of short-term debt as of December 31, 2022.[203] Staff's recommended capital structure combined with its recommended ROE results in an overall ROR of 7.09 percent.[204]

142 J. Randall Woolridge completes the cost of capital analysis on behalf of Public Counsel relying on the DCF and CAPM models with a resulting ROE range of 9.15 percent to 9.40 percent. Woolridge recommends the Commission authorize a ROE of 9.25 percent in this proceeding.[205]

143 Woolridge disagrees with the Company's risk assessment based on recent and current market conditions. Woolridge believes long-term interest rates are expected to remain stable, with current rates lower than the peak in October 2022, combined with a current inverted yield indicating likelihood of a near-term recession which would further depress interest rates.[206] Further, Woolridge argues the Company's credit ratings are better than the average of both Public Counsel and the Company proxy groups.[207] Finally, like Staff, Woolridge argues some of Bulkley's identified risks are already embedded in the Company's credit rating.[208]

144 Public Counsel witness Woolridge utilizes a proxy group containing 24 companies, which includes Bulkley's proxy group with the exception of Otter Tail Corp. Woolridge's proxy group criteria include the company: (1) receives at least 50 percent of revenues from regulated electric operations as reported in its SEC Form 10-K Report; (2) is classified by Value Line Investment Survey as a U.S.-based electric utility; (3) holds an investment-grade corporate credit and bond rating; (4) has paid a cash dividend for the past six months, with no cuts or omissions; (5) was not involved in an acquisition of another utility, and was not the target of an acquisition; and (6) has analysts' long-term growth rate forecasts available from Yahoo! Finance, S&P Cap IQ, and/or Zacks.[209]

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[202] *Id.* at 30:18-19, 20, 31:15-17.

[203] *Id.* at 31:20-32:3.

[204] *Id.* at 59:16-18.

[205] Woolridge, Exh. JRW-1T at 4:15-5:2.

[206] *Id.* at 5:13-19.

[207] *Id.* at 6:4-7.

[208] *Id.* at 9:11-19.

[209] *Id.* at 23:2-11.

145 To perform a DCF analysis, Woolridge uses the midpoint of their dividend yield calculation, which relies on the current annual dividend and the 30-day, 90-day, and 180-day average stock prices for Public Counsel's proxy companies. Woolridge then applies an adjustment to compensate for the dividend changes over the course of the year.[210]

146 In determining the growth factor, Woolridge completes their analysis using data sets comprised of historic, projected, and internal growth rates. The historic growth rates for EPS, DPS, and BVPS include two periods, the past 5 and 10 years, which result in an average median of 4.3 percent. The projected growth rate considers Value Line as well as "Wall Street Analysts" (Yahoo! Finance, Zacks, S&P Cap IQ) which result in median range of 4.0 to 6.0 percent and 5.6 to 6.0 percent respectively. For the internal growth rate, Woolridge relies on Value Line's average projected retention rate and return on shareholder's equity with a median of 4.0 percent. While the entirety of the analysis produces a range from 4.0 to 6.0 percent, Woolridge more heavily weighs the Value Line and Wall Street Analysts, but Woolridge believes the upward bias of these forecasts must be considered. Woolridge thus determines the appropriate range is 5.0 percent to 5.8 percent and the resulting midpoint of 5.4 percent.[211]

147 Public Counsel ultimately arrives at a recommended DCF ROE of 9.30 applying the dividend yield and growth rate factor.[212] Woolridge testifies the DCF result is more heavily weighted in their analysis, saying that due to the "relative stability of the utility business, the DCF model provides the best measure of equity-cost rates for public utilities…[while] the CAPM provides a less reliable measure of a utility's equity cost-rate because it requires an estimate of the market-risk premium."[213]

148 Woolridge finds two faults with Bulkley's DCF analysis. First, Woolridge argues Bulkley errs in relying solely on EPS growth rates as the DCF model is a dividend growth model with overly optimistic rates. Woolridge bases this argument on their own analysis of EPS versus actual from 1985 through 2022, and an independent study from 2008 that evaluated the accuracy of Value Line's EPS growth rate forecasts over a 30-year period.[214] Second, Woolridge dismisses Bulkley's claim that the DCF model understates the cost of equity. Based on Bulkley's assertion, Woolridge argues that if utility stocks

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[210] *Id.* at 40:2-41:6.

[211] *Id.* at 47:18-50:2.

[212] *Id.* at 51:4-6.

[213] *Id.* at 35:17-36:6.

[214] *Id.* at 69:5-70:8.

are overvalued and prices will decline in the future then the forecast should be for negative returns which is not presented in the Company's analysis or testimony.[215]

149 In determining the risk-free rate for a CAPM analysis, Woolridge uses the 30-year U.S. Treasury bond yield.[216] Woolridge relies on Value Line for their proxy group to establish the beta coefficient.[217] To determine the risk premium component, Woolridge's analysis uses a vast data set (over 30 studies and sources) with varying timeframes.[218] However, Woolridge testifies they rely most heavily on recent studies by Fernandez, Damodaran, Kroll, and KPMG.[219] Relied-upon studies indicate a range of 4.0 – 6.0 percent with Woolridge selecting 5.50 percent for the risk premium in the CAPM analysis.[220] Using the inputs above, the calculated ROE for Woolridge's CAPM analysis is 9.15 percent.[221]

150 Like Staff's cost of capital witness Parcell, Woolridge finds fault with Bulkley's reliance on projected EPS growth rate from the DCF analysis as an input into the CAPM analysis.[222] Further, Woolridge argues the resulting expected market return of 12.5 percent is "excessive and unrealistic…and assumes that the return on the U.S. stock market will be more than 20 percent higher in the future than it has been in the past."[223] Woolridge then argues that short-term EPS results cannot be sustained over the long-term including a historical linkage between Gross Domestic Product (GDP) and EPS.[224]

151 Woolridge wholly rejects the ECAPM analysis stating the model has "not been theoretically or empirically validated in refereed journals."[225] Further, witness Woolridge argues that even if an ECAPM analysis is considered, there is "no empirical justification" for the utilization of adjusted betas as employed by Bulkley.

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[215] *Id.* at 70:11-19.

[216] *Id.* at 54:1-4.

[217] *Id.* at 57:9-11; JRW-8.3.

[218] Woolridge, Exh. JRW-1T at 60:5-23. JRW-5 represents all identified studies over the past 20 years which provides a median risk premium of 4.83 percent. JRW-6 represents all identified studies from JRW-5 restricted to 2010-current resulting in a median risk premium of 5.34 percent.

[219] *Id.* at 64:7-8.

[220] *Id.* at 64:3-7.

[221] *Id.* at 65, Table 8.

[222] *Id.* at 72:13-22.

[223] *Id.* at 73:8-12.

[224] *Id.* at 76:6-89:16.

[225] *Id.* at 71:21-22.

152 In responding to Bulkley's alternative Risk Premium model, Woolridge argues there is an inappropriate mismatch due to relying on historical ROE and Treasury yield to determine a forward-looking risk premium. Next, Woolridge contends the Company's model does not appropriately reflect investor behavior and likely contains authorized ROEs from settlements rather than fully litigated rate cases. Further, Woolridge argues those authorized ROEs are in excess of what is required by investors as evidenced by stocks sold above book value for the past decade and ROEs that have not declined in sync with declining capital costs during the past four decades.[226] Finally, Woolridge compares Bulkley's high-end result of 10.32 with more recently authorized ROEs averages between 9.54 and 9.66 in 2022 and through the first half of 2023 respectively.[227]

153 Finally, Public Counsel recommends the Commission completely disregard Bulkley's Expected Earnings analysis, because this accounting-based methodology does not measure investor return requirements.[228] Woolridge contends the expected earnings approach ignores capital markets. It assumes ROEs are related to investors' market opportunities, but investors cannot purchase common stock at book value. It is therefore not determined by competitive markets.[229]

154 Public Counsel recommends maintaining the capital structure from the Company's 2020 GRC Settlement and accepts the Company's proposed preferred stock and long-term debt cost rates.[230] Woolridge opines the Company's equity ratio is not comparable to the proxy group's average equity ratio, which is lower and therefore represents higher financial risk.[231] Considering Public Counsel's ROE recommendation of 9.25 percent, this results in an overall ROR of 6.97 percent.[232]

155 On behalf of AWEC, Lance D. Kaufman provides cost of capital testimony based on the DCF model, CAPM, and ECAPM. Kaufman's analysis results in a recommended ROE range of 8.50 percent to 9.50 percent and contends the midpoint (9.0 percent) is an appropriate ROE based on the Company's risk profile, market conditions, and investor behavior.[233] AWEC uses the Company's proxy group to perform their modeling.

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[226] *Id.* at 90:7-91:8.

[227] *Id.* at 91:11-13.

[228] *Id.* at 92:2-4.

[229] *Id.* at 92:5-93:19.

[230] *Id.* at 4:11-13.

[231] *Id.* at 25:8-10.

[232] *Id.* at 4:10-5:5.

[233] Kaufman, Exh. LDK-1CT at 2:21-3:4.

156 Kaufman contends that current market conditions support AWEC's recommendation to reduce the Company's authorized ROE in this proceeding. Refuting Company witness Bulkley, AWEC references its Data Request 021 in which the Company confirms its ability to attract sufficient capital from 2009 through January 2023.[234]

157 Additionally, Kaufman argues that the Company has provided no evidence that it is unable to attract capital. In fact, the Company's proposed increase in capital ratio above existing levels demonstrates an "investor appetite" for the *existing* ROE. [235] Furthering this argument, Kaufman believes the proxy companies have excessive authorized ROEs as evidenced by an average market-to-book ratio greater than one since 1992, with current levels the highest over the period. [236]

158 Kaufman highlights the inherent bias of expert witness testimony in rate case proceedings and provides testimony detailing a third-party tool providing eight models as a neutral resource.[237] However, Kaufman then finds fault with three of the models and recommends eliminating them from consideration. Yet, Kaufman notes that if the Commission decides to rely on the full set of independent models, it should only use the aggregated data.[238]

159 For a DCF analysis, Kaufman uses annualized dividend and average stock prices for the proxy group but updates the data with information as of August 26, 2023, from Yahoo! Finance.[239] Kaufman references recent research that Value Line projections are "overly optimistic" and therefore, while including forecasts to determine the high-end of the growth rate range, also incorporates historical data.[240] AWEC's analysis differs from the Company's in several other significant ways.

160 First, Kaufman looks at three periods (10-year, 20-year, 28-year) using the Value Line Growth Rates to determine a median range of 3.7-6.0 percent.[241] Second, like Staff,

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[234] *Id.* at 24:4-5. The Commission notes the Company's response in Data Request 021 states their witness had not conducted the requested research.

[235] Kaufman, Exh. LDK-1CT at 24:6-7. Kaufman references the Averch-Johnson effect which is the tendency of regulated companies to engage in excessive capital investment, beyond optimal efficiency, to expand the volume of profits.

[236] *Id.* at 25:4-7.

[237] *Id.* at 31:1-7.

[238] *Id.* at 31:13-33:5.

[239] *Id.* at 4:7, 7:19; LDK-4.

[240] *Id.* at 8:12-9:6.

[241] *Id.* at 11, Table LK-3.

Kaufman relies on the geometric mean arguing it is a more illustrative calculation but then introduces a Monte Carlo simulation using historic EPS growth rates over 28 years for each of the proxy companies in determining their median growth rate of 3.9 percent.[242] Further, based on inverted bond yield curves, Kaufman believes inflation rates will decrease and growth rates will converge with the GDP rate.[243] Therefore, Kaufman argues their growth rate is reasonable as it closely aligns with the U.S. Congressional Budget Office's forecasted long-term economy growth rate of 3.5 percent.[244]

161 AWEC's DCF analysis provides a recommended ROE range of 8.79 percent to 9.46 percent.[245]

162 In determining the risk-free rate for a CAPM analysis, Kaufman relies on a projected three-month average for the 30-year Treasury bond yield using Q3 2023 through Q4 2024.[246] Kaufman computes a beta coefficient by performing a linear regression using S&P 500 monthly returns over a five-year period for each proxy company.[247] However, they also complete a second analysis using unadjusted betas from Bloomberg.[248] AWEC's market return is based on S&P data.[249] The risk premium is calculated by using the average of the Company's risk premium (8.03 percent) and an implied premium calculated by Damodaran, a professor at NYU, as of January 2023 (5.94 percent).[250] This results in a market risk premium of 6.98 percent and a recommended ROE range of 8.0 percent to 9.02 percent. [251]

163 Kaufman criticizes Bulkley's reliance on adjusted betas from Bloomberg and Value Line which either add weight toward the market beta of "1" or rounds to five percent with an undisclosed upward adjustment, respectively.[252] AWEC's witness argues this is

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[242] *Id.* at 9:4-9, 11 at Table LK-3.

[243] *Id.* at 8:7-9.

[244] *Id.* at 11:10-12:4.

[245] *Id.* at 7:13-14.

[246] *Id.* at 12:16; LDK-4 at column 1.

[247] *Id.* at 12:18-13:2.

[248] *Id.* at 12:10-11.

[249] *Id.* at 13:1. The Commission assumes that any differences in AWEC's market return data using the same source as PacifiCorp is due to the timing difference of utilized data. For reference, the Company's market return on direct was 12.5 percent.

[250] *Id.* at 20:15-17.

[251] *Id.* at 12:8.

[252] *Id.* at 13:4-14.

inappropriate as "adjusting towards the market average will overrepresent the risk… [as any] adjustment should be made to the industry average."[253] In further support, Kaufman provides testimony that the current U.S. electric industry beta is 0.41, and provides a comparison table to illustrate why Bloomberg and Value Line betas are considered outliers when compared to the witness's own regression analysis and Zach's data sets.[254] Finally, Kaufman references an Oregon Public Utility Commission proceeding where they ruled against the utilization of adjusted betas.[255]

164 Kaufman also criticizes the Company's Risk Premium analysis, using Value Line forecasts, as they are 30 to 100 percent higher than other estimates,[256] and subject to the same bias as the EPS forecasts utilized in the DCF analysis.[257]

165 Kaufman uses the same ECAPM calculation method as the Company with the lower bound based on Kaufman's beta regression analysis and the upper bound using Bloomberg's unadjusted betas. This results in an ROE range of 8.77 percent and 9.53 percent.[258] However, despite providing this analysis, Kaufman contends the ECAPM results should be given no weight for two reasons: (1) the model relies on statistical analysis from 1989 which may not represent today's markets; and (2) the analysis relies on industry averages rather than utility averages.[259]

166 AWEC recommends a capital structure of 51 percent common equity, 0.01 percent preferred stock, and 48.99 percent long-term debt, and uses the Company's proposed rates of 6.75 percent and 4.77 percent for preferred stock and long-term debt, respectively.[260] Combined with AWEC's recommended ROE of 9.0 percent, this results in a ROR of 6.93 percent.[261]

167 Kaufman agrees with the Company's elimination of the short-term debt component to establish the hypothetical capital structure. However, AWEC recommends replacing the

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[253] *Id.* at 14:3-7.

[254] *Id.* at 15:14-16; LDK-1CT at 14, Table LK-5.

[255] *Id.* at 15:10-11

[256] Kaufman, Exh. LDK-1CT at 16:8-10; LDK-1CT at 16, Table LK-6. AWEC recognizes that PacifiCorp does not use the Value Line forecasts directly but places a floor and ceiling (0-20 percent) for stocks.

[257] Kaufman, Exh. LDK-1CT at 17:7-8.

[258] *Id.* at 22:10-12.

[259] *Id.* at 23:3-9.

[260] *Id.* at 33:8-9, 34:19.

[261] *Id.* at 34:19-20.

short-term debt with only long-term debt to slightly mitigate the requested increase in the equity component.[262] Finally, Kaufman argues the capital structure is reasonable given the Company's control over dividend payments to its parent company.[263]

168 Walmart witness Alex J. Kronauer does not provide cost of capital modeling or make recommendations on the proposed capital structure but rather encourages consideration of four factors in determining a ROE in this proceeding. First, Kronauer estimates the requested change in ROE accounts for approximately 22 and 26 percent of the revenue requirement increase for rate year 1 and 2 respectively, encouraging this impact to customers be considered.[264] Walmart contends this utility cost increase is then embedded in consumer product pricing.[265] Second, Kronauer argues the Company will experience reduced regulatory lag with the proposed MYRP and the inclusion of provisional plant.[266] The third factor identified by Walmart is the significant departure from recent ROEs approved by this Commission. Referencing proceedings since 2020, Kronauer testifies the average authorized ROE is 9.42 percent.[267] Similarly, Kronauer recommends the Commission consider authorized ROEs from other jurisdictions, and that while not bound by other jurisdictional decisions, the data points do provide a "general gauge of reasonableness" for consideration in this case.[268]

169 Further, relying on S&P Global data from 2020 through a portion of 2023, Kronauer testifies that authorized ROEs range from 7.36 percent to 11.45 percent inclusive of 127 electric investor-owned utilities. If the Commission were to authorize the Company's proposed request of 10.3 percent, Kronauer offers, the Company would have the fourth highest ROE of vertically integrated utilities nationwide.[269]

Rebuttal and cross-answering testimony

170 On rebuttal, Company witness Bulkley updates their analysis with data through September 30, 2023.[270] The updated models result in a recommended ROE range of 8.86

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[262] *Id.* at 33:14-16.

[263] *Id.* at 34:13-14.

[264] Kronauer, Exh. AJK-1T at 8:6-7, 9:5-13.

[265] *Id.* at 5:19-21.

[266] *Id.* at 6:12-14.

[267] *Id.* at 10:5-6. The Commission notes several of those rate cases were settlements and did not fully litigate cost of capital.

[268] *Id.* at 14:5-11.

[269] *Id.* at 11:13-12:19.

[270] Bulkley, Exh. AEB-15T at 2:6-7.

percent to 11.44 percent.[271] Despite testimony claiming an increase in the cost of equity since the Company's direct filing, PacifiCorp decreases its ROE request from 10.3 to 10.0 percent.[272] Additionally, Bulkley applies their methodology to other parties' models and provides alternative outcomes for consideration.

171 While providing extensive testimony refuting parties' modeling and their criticisms of the Company's results, witness Bulkley primarily argues the other parties' recommendations are "directionally inconsistent…given current market conditions."[273] Bulkley maintains that elevated interest rates and recent underperformance of utility stocks are the primary factors that both support the Company's revised request and refute other parties' perspectives of current and near-term market conditions. Bulkley cites various Analyst forecast articles and Federal Reserve statements and projections to support their position.[274] Specifically responding to Staff witness Parcell's argument that an ROE of 9.50 percent is consistent with recent rate proceedings for Avista and PSE, Bulkley contends this position overlooks market changes since the summer of 2022 and should be disregarded.[275]

172 In responding to Walmart witness Kronauer's general ROE recommendations, Bulkley argues that customer impact and affordability should not be considered in determining a Company's ROE. Rather, he says, the determination should be based on investor required return based on market analysis.[276] Further, Bulkley testifies that customer impacts "…can be addressed via other regulatory mechanisms and programs (*e.g.*, low-income assistance programs).[277]

173 Bulkley revises the proxy group used for rebuttal by removing Otter Tail Corporation and including Pinnacle West Capital Corporation based on their direct filing proxy group parameters.[278] The Company takes issue with the proxy groups utilized by Staff and Public Counsel but ultimately testifies that "our respective cost of equity models are largely not a function of proxy group differences, but rather methodological

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[271] *See* Bulkley, Exh. AEB-16.

[272] Bulkley, Exh. AEB-15T at 3-7.

[273] *Id.* at 7:21-23.

[274] *Id.* at 12:1-15:6.

[275] *Id.* at 20:18-21:19.

[276] *Id.* at 8:8-11-9:1.

[277] *Id.* at 8:12-14.

[278] *Id.* at 22:7-11. Otter Tail Corporation derives less than 60 percent of revenues from regulated operations and Pinnacle West Capital Corporation now has positive growth rates.

differences…[a]s a result, while I note my disagreements with their proxy group, I will not further discuss those issues."[279]

174 In response to Public Counsel, Bulkley argues the use of projected DPS and BVPS is not the appropriate basis to determine the growth rate. Bulkley contends dividends are impacted not only by earnings but also management fiscal policy and therefore are not as relevant as EPS growth projections. Further, Bulkley opposes reliance on a single analytical source as used by Public Counsel. Finally, Bulkley expresses concern that Woolridge makes the final determination for growth rate "based on their own judgement."

175 While AWEC witness Kaufman, like the Company and Staff, relies on projected EPS growth rates, Bulkley criticizes the use of a Monte Carlo simulation in their DCF model. In addition to being "non-traditional and inconsistent with the approach of other witnesses…it is greatly affected by the analytical period…and the market events that occurred within that period."[280] Bulkley points to Kaufman's exhibit LDK-4 to illustrate the volatility in growth rate using the Monte Carlo simulation.[281]

176 Bulkley also responds to other parties' criticisms of the Company's DCF analysis. First, Bulkley dismisses Parcell's judgement regarding the use of the highest growth rate by arguing analysts have differing views of individual companies. Second, the Company refutes other parties' claims that projected EPS growth rates are upwardly biased by providing several references that support Bulkley's claim that bias is no longer a significant issue and that FERC opinions have consistently confirmed projected EPS as a reliable methodology.[282]

177 Witness Bulkley disagrees with Staff's CAPM modeling for four reasons: (1) dependence on historical market risk premium; (2) reliance of the geometric mean; (3) use of total return instead of income-only return for long-term government bonds;[283] and (4) failing to recognize the inverse relationship between interest rates and market risk premium.[284] Additionally, the Company argues that Public Counsel's and AWEC's analyses suffer

[279] Bulkley, Exh. AEB-15T at 25:17-20.

[280] *Id.* at 35:6-14. The events specifically referenced are the Global Financial Crisis of 2007/2008 and COVID-19 pandemic.

[281] *Id.* at 35:17-36:5.

[282] *Id.* at 38:16-42:10.

[283] Bulkley provides a reference to *Morningstar Inc.* from 2010 that provides: "The income return is thus used in the estimation of the equity risk premium because it represents the truly riskless portion of the return." Bulkley, Exh. AEB-15T at 47:15-17.

[284] *Id.* at 44:5-6, 45:6-17.

from the same deficiency as Staff's in that they fail to recognize the inverse relationship between interest rates and market risk premium.[285] Simply stated, Bulkley's argument is that CAPM is a forward-looking analysis and historical realized returns do not indicate future market expectations, interest rates of long-term government bonds, or monetary policy to address inflation.[286]

178 Further, Bulkley discredits the market risk premium used by Woolridge by citing a caveat provided by the survey's author which states, "the survey cannot be interpreted as the required equity premium of the market nor of a representative investor."[287] Finally, Bulkley criticizes Kaufman's use of unadjusted betas in their analysis highlighting that all other cost of capital witnesses in this proceeding applied adjusted betas as an appropriate methodology. Bulkley testifies that Kaufman relies on an outdated Oregon Public Utility Commission proceeding from over 20 years ago related to the telecommunications industry to support their use of an unadjusted beta.[288]

179 Bulkley does not agree with Kaufman's ECAPM results for the same reasons as the CAPM model (unadjusted beta and market risk premium inputs).[289] Further, Bulkley testifies that AWEC's results are "inconsistent with currently authorized ROEs for vertically integrated electric utilities nationally…."[290]

180 The non-Company cost of capital witnesses, except for Walmart which does not provide specific analysis, claim the ECAPM model is not appropriate to determine the cost of capital in this proceeding. Both Staff and Public Counsel base their arguments on the adjusted betas utilized by the Company, while AWEC argues the fundamental validity of the model. In response, Bulkley argues the ECAPM adjusted beta serves a different purpose from the CAPM adjusted beta in that "the ECAPM does not account for the tendency of beta to trend toward 1.00."[291] Finally, Bulkley references literature and other jurisdictions' decisions regarding both the appropriateness and acceptance of utilizing adjusted betas in the ECAPM analysis.[292]

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[285] *Id.* at 52:4-10.

[286] *Id.* at 44:20-45:5.

[287] *Id.* at 53:13-14.

[288] *Id.* at 54:14-55:7.

[289] *Id.* at 63:11-13.

[290] *Id.* at 63:15-16.

[291] *Id.* at 64:24-25.

[292] *Id.* at 68:3-70:2.

181 While Bulkley disagrees with Parcell's Risk Premium analysis, specifically the exclusion of data for 2020-2021, Bulkley submits that Staff's results are consistent with the Company's requested ROE and indicates, "to limit the contested issues, I will not address witness Parcell's Risk Premium analysis."[293]

182 However, the Company does respond to parties' criticism of Bulkley's Risk Premium analysis. Bulkley dismisses Staff's critique because Parcell accepts the Company's relationship assumption between risk premium and interest rate changes, and therefore Bulkley refers to Parcell's argument regarding the coefficient of the regression analysis as "disingenuous."[294]

183 Responding to Public Counsel, Bulkley disagrees with witness Woolridge's claims that the Risk Premium methodology does not measure investor behavior, and that regulatory agencies consistently approve ROE in excess of the cost of capital. First, Bulkley argues that the market and investors respond directly to the authorized ROE and that interest rates are considered in determining the ROE.[295] Additionally, Bulkley believes that Public Counsel's position to discard the Risk Premium results is contradictory as they rely on the same ROE data to support their modeling results, generally.[296] Bulkley also testifies that Public Counsel does not accurately portray the bond yields relied upon in the Company's Risk Premium analysis and provides references to direct and rebuttal exhibits that reflect analysis of both current and projected Treasury bond yields.[297] Finally, in response to Public Counsel's claim that authorized ROEs are in excess of the cost of capital, Bulkley argues that the legal requirement for regulatory commissions to determine rates that are fair, just, and reasonable means that regulatory commission decisions reflect the rate of return required by investors.[298]

184 The Company believes Staff's CE analysis understates the future return expected by investors for several reasons. Specifically, Bulkley argues that Parcell improperly uses a backward-looking analysis over an extraordinarily long timeframe, does not consider the change in shares outstanding, and does not confirm the proxy companies meet their parameters over the entire period.

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[293] *Id.* at 71:4-5.

[294] *Id.* at 72:10-14.

[295] *Id.* at 72:17-2.

[296] *Id.* at 73:3-15.

[297] *Id.* at 75:6-11.

[298] *Id.* at 75:14-21.

185 Responding to Staff's criticism that the Company does not consider M/B ratios, Bulkley testifies that Staff's analysis also did not adjust for M/B ratios in their own analysis. Public Counsel identifies a plethora of concerns with the Company's CE analysis. In response, Bulkley relies on the *Hope* and *Bluefield* standard and argues that "it is reasonable to consider the returns that investors expect to earn on the common equity of utilities in the proxy group as a benchmark …that an investor will consider in determining whether to purchase shares in the company or seek alternative investments…." Further, Bulkley contends that Woolridge only cites weaknesses of the CE model and does not include its benefits.

186 While Staff and Public Counsel identify several concerns with the Company's assessment of its business and regulatory risk, Bulkley primarily focuses on Parcell's perspective that RCW 80.28.425 reduces regulatory lag and thereby reduces PacifiCorp's regulatory risk. In refuting this claim, Bulkley testifies that nearly half of the proxy group companies' rates are determined with an underlying fully or partially forecast test year.[299]

187 The Company maintains its proposed capital structure and provides testimony responding to Staff and Public Counsel. First, the Company addresses Staff witness Parcell's recommendation to utilize the capital structure decided from its 2015 GRC. Witnesses Bulkley and Kobliha argue that Staff provide no basis for this recommendation other than "maintain[ing] the status quo."[300] Further, Kobliha reasons it is not necessary to incorporate short-term debt into the Company's capital structure as there is volatility in short-term debt balances and for its past two rate cases "had no practical impact on the cost of capital rounded to two decimal places."[301] However, if the Commission determines it is appropriate to include short-term debt, Kobliha recommends that 0.73 percent of the capital structure be attributed to short-term debt, using the five-quarter forecast ending December 2024 with a weighted cost of 5.665 percent.[302]

188 Bulkley and Kobliha also take issue with both Parcell's and Woolridge's equity ratio comparisons at the holding company level as they include a level of non-regulated debt.[303] Bulkley identifies contradictory response testimony regarding the Expected Earnings analysis where Woolridge argues that proxy companies are not representative of

[299] *Id.* at 83:4-17.

[300] *Id.* at 84:27-28; Kobliha, Exh. NLK-7T at 3:15-4:2.

[301] Kobliha, Exh. NLK-7T at 6:2-9.

[302] *Id.* at 6:12-15; NLK-9.

[303] Bulkley, Exh. AEB-15T at 85:10-11; Kobliha, Exh. NLK-7T at 4:5-9. Kobliha also notes that ring-fencing provisions are in place to protect PacifiCorp from Berkshire Hathaway Energy's financial position. Kobliha, Exh. NLK-7T at 5:4-20.

rate-regulated utility activities.[304] Further, Kobliha criticizes Parcell's limited data set in determining an appropriate common equity ratio arguing the Company's data better represent a reasonable range.[305]

189 Finally, Bulkley testifies that Woolridge relies on the market value for their DCF and CAPM analyses, but then relies on book value at the holding level for their capital structure recommendations. Bulkley argues this creates a mismatch and provides detailed testimony on the difference created, noting "th[is] results in the incorrect conclusion that a ROE reflecting the financial risk of the market value equity ratio would be sufficient to compensate investors for a much more highly levered capital structure based on book value."[306]

190 Company witness Kobliha updates the cost of debt for a new series of long-term debt issued in May 2023 with the actual principal amount, terms, yield discount, and related actual and estimated issuance costs. Additionally, Kobliha updates prospective financing needs through the 2024 rate period for current forward treasury rates as of July 2023.[307] These changes result in an increased weighted average cost of debt of 5.09 percent from 4.77 percent.[308]

191 Public Counsel provides cross-answering testimony responding to Staff's ROE recommendation and supporting analyses.

192 In cross answering testimony responding to Staff's recommendation and supporting analyses, Woolridge argues that Parcell's DCF analysis relies on the average dividend yield and highest growth rate while ignoring the mean and median for the entirety of the analysis.[309] Woolridge views this as "an elementary statistical mistake," which Woolridge states Parcell acknowledges in their own testimony.[310] Second, Woolridge renews the argument directed at the Company's analysis which relies on projected EPS growth rates as "overly optimistic and upwardly biased."[311]

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[304] Bulkley, Exh. AEB-15T at 86:7-16 citing Woolridge, Exh. JRW-1T at 93:14-19.

[305] Kobliha, Exh. NLK-7T at 4:9-20.

[306] Bulkley, Exh. AEB-15T at 89:21-90:4.

[307] Kobliha, Exh. NLK-7T at 2:7-20.

[308] *Id.* at 1-3.

[309] Woolridge, Exh. JRW-13T at 5:1-14.

[310] *Id.* at 7:12-19.

[311] Woolridge, Exh. JRW-13T at 5:15-6:14.

193 In responding to Parcell's CAPM analysis, Woolridge contends the risk premium is artificially elevated based on the reliance on historical returns to measure future expectations, citing Duff & Phelps statements in support of this argument.[312] Woolridge testifies the current Kroll recommended market risk premium is 5.50 percent, opposed to Parcell's historic analysis resulting in 6.40 percent.[313]

194 Woolridge also finds fault in Staff's Alternative Risk Premium analysis calling it "a model of his own making and interpretation,"[314] as Parcell makes various subjective modifications.[315] As with Public Counsel's response to the Company's analysis, Woolridge renews their arguments that the Risk Premium approach "is a gauge of *[C]ommission* behavior and not *investor* behavior,"[316] and that the ROE is overstated as it relies on other jurisdictions' ROE determinations that do not accurately reflect a decline in capital costs over the past four decades.[317]

195 AWEC witness Kaufman recommends the Commission disregard Staff's Risk Premium analysis in determining the Company's ROE. Kaufman argues the model does not appropriately observe the *Hope* and *Bluefield* standard, is not representative of investor expectations, relies on historical data that is not representative of current conditions, and as it is based on Commission decisions is "a circular model with no basis.[318]

Post-hearing briefs

196 In its Brief, PacifiCorp argues that the Settlement's ROR of 7.29 percent is "well within the reasonable range reflected in the Parties' testimony; it is nearly the mid-point between the Parties' high and low recommendation (7.6 and 6.927 percent) and is three basis points higher than Staff's recommendation."[319] The Company notes that capital costs

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[312] *Id.* at 9:10-13, 10:16-11:22.

[313] *Id.* at 11:24-12:5. Kroll is a subsidiary of Duff & Phelps.

[314] *Id.* at 13:10.

[315] *Id.* at 12:13-17.

[316] *Id.* at 13:13-14. Emphasis in testimony.

[317] *Id.* at 14:11-18.

[318] Kaufman, Exh. LDK-6T at 11:7-12:2.

[319] PacifiCorp Settlement Brief ¶ 13. It appears here that PacifiCorp is referring to the Settlement's ROR being three basis points higher than the mid-point of the range between 6.927 and 7.3 percent, rather than Staff's specific ROR recommendation of 7.09 percent.

have increased in recent years and that the Commission should approve a reasonable 12 basis point increase from the 7.17 ROR approved in its last GRC.[320]

197 Staff does not address the Settlement's ROR at length in its Brief. Yet Staff notes that the Settlement's proposed revenue requirement over the two-year rate plan is $10.4 million lower than that proposed in Staff's response testimony.[321]

198 In its Brief, Public Counsel applies the Company's updated cost of debt in its rebuttal filing and accordingly adjusts its ROR recommendation from 6.97 percent to 7.13 percent.[322] Public Counsel argues, however, that the rate increase proposed in the Settlement is unreasonably high and that the Commission should reduce the Company's ROR from 7.29 to 7.13 percent.[323] Public Counsel argues that the "results only" nature of the Settlement on this point lacks transparency and is contrary to law and the public interest.

199 ***Commission Determination.*** Before considering the specific ROR proposed by the Settlement, we first address Public Counsel's argument that a results only settlement is unlawful or contrary to the public interest. The Commission has considered numerous results only settlements over the years, including several that include a results only ROR settlement provision. The Commission has previously held that a results only settlement "would be troubling only if unsupported by sufficient evidence that the agreed revenue requirement is fair, just, reasonable, and sufficient."[324] For the reasons discussed below, we find Public Counsel's argument not persuasive.

200 While Public Counsel suggests a results only settlement is unlawful or contrary to the public interest, Public Counsel cites no legal authority in support of this proposition.

201 Further, Public Counsel's argument appears inconsistent with longstanding precedent. In *Fed. Power Comm'n v. Hope Natural Gas*, the Supreme Court emphasized that "[u]nder the statutory standard of 'just and reasonable,' it is the result reached, not the method employed, which is controlling."[325] The Commission is properly able to review the Settlement in light of the Supporting Testimony and the rest of the testimony and the evidence properly admitted into the record. Ultimately, the question is whether the

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[320] *Id.*

[321] Staff Settlement Brief ¶ 9.

[322] Public Counsel Settlement Brief at 25.

[323] *Id.* at 24.

[324] *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-190334, UG-190335, and UE-190222 Order 09 (March 25, 2020).

[325] *Fed. Power Comm'n v. Hope Nat. Gas*, 320 U.S. 591, 602 (1944) (*Hope*).

proposed rate increase and other specific terms of the Settlement are consistent with the public interest, not the method employed.

202 In determining whether a settlement, including a results only settlement, is supported by or contrary to the public interest, considers all of the record evidence and the elements of the public interest identified in statute and through prior cases, and by the various parties to a proceeding. By statute, the Attorney General shall "represent and appears for" both the "people of the state of Washington" through Public Counsel and Commission Staff in these proceedings.[326] Staff, Public Counsel, and intervening parties all play a crucial role in developing the record and representing various facets of the public interest in Commission proceedings. The conflict and competition between the parties sharpens the debate and develops the record on all issues, including the issue of the public interest.

203 Public Counsel has several rights as a party opposed to the Settlement.[327] This is equally true for a results only settlement. When Public Counsel focuses its opposition, as it has in this case, on the Settlement's proposed rate increase and other Settlement terms, the Commission is able to fully consider Public Counsel's opposition as we consider whether the outcome is in the public interest.[328]

204 Thus, we reject Public Counsel's argument that a results only Settlement is, by its nature, contrary to law or contrary to the public interest. We turn to considering the Settlement's proposed overall rate of return, or ROR.

205 In *Hope*, the United States Supreme Court recognized that rates for regulated monopoly utilities must incorporate a fair rate of return that is comparable to returns investors would expect to receive on other investments of similar risk, sufficient to assure confidence in the utility's financial integrity, and adequate to attract capital at reasonable costs.[329]

206 When the Commission is presented with a results only settlement that only specifies an overall ROR, such as the present case, the Commission is still able to evaluate the proposed ROR and determine whether it results in fair, just, reasonable, and sufficient

[326] RCW 80.01.100. *Accord* RCW 80.04.510.

[327] WAC 480-07-740(3)(c).

[328] *See WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-220053 & UG-220054, Order 11/05 (January 30, 2023) ("An effective opposition to a Settlement with a results-only revenue requirement must focus, as the Commission must, on the Settlement and on the results-focused revenue requirement in order to be persuasive.").

[329] *Hope*, 320 U.S. at 603. *See also Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W. Virginia*, 262 U.S. 679 (1923).

rates.[330] Pursuant to *Hope*, "it is the result reached, not the method employed, which is controlling."[331]

207 In this case, the Settlement proposes a ROR of 7.29 percent. As PacifiCorp observes, this ROR "appropriately reflects increased capital costs since the Commission last set the Company's rate of return at 7.17 percent in December 2020."[332] Bulkley testifies, for instance, the Company's request is warranted based on current and expected levels of elevated inflation and interest rates which have resulted in utility dividend yields being less appealing to investors.[333] Additionally, Bulkley testifies that Moody's recently downgraded the outlook for the utility industry to negative. [334]

208 Furthermore, we observe that the Company updated its cost of debt in its rebuttal filing.[335] If cost of capital had remained a litigated issue, each of the non-Company parties would likely have increased their ROR recommendations from those in their response testimony. In fact, as the single party opposing the Settlement and updating its position, Public Counsel acknowledges that the updated cost of debt increased its ROR recommendation 16 basis points, from 6.97 to 7.13 percent.[336] This also weighs in favor of the Settlement's proposed ROR.

209 We consider Public Counsel's arguments that the Company's ROR should be set lower at 7.13 percent. In particular, we consider Public Counsel's position, which largely depends on witness Woolridge's recommendations. PacifiCorp witness Bulkley argues that the non-Company parties' recommendations are "directionally inconsistent…given current

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[330] *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-140188 and UG-140189 Order 05 (November 25, 2014) (noting that the parties "undertook extensive negotiations," that the discussions "produced a reasonable balancing of interests," and that the Commission accepted the proposed overall ROR that did not specify individual cost of capital elements). *See also WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-110876 and UG-110877 Order 06 (December 16, 2011) (accepting a settlement that proposed an overall ROR of 7.62 percent for booking certain construction expenses and compliance filings without specifying cost of capital elements).

[331] *Hope*, 320 U.S. at 602.

[332] PacifiCorp Settlement Brief ¶ 13 (citing *WUTC v. PacifiCorp, dba Pac. Power & Light Co.*, Docket Nos. UE-191024, UE-190929, UE-190981, UE-180778 (consolidated), Final Order 09/07/12 at 2 (Dec. 14, 2020)).

[333] Bulkley, Exh. AEB-11; Bulkley, Exh. AEB-1Tr at 18:15-19, 19 at Figure 4.

[334] Bulkley, Exh. AEB-1Tr at 6:6-20.

[335] Kobliha, Exh. NLK-7T at 1-3.

[336] *See* Public Counsel Settlement Brief. ¶

market conditions."[337] Bulkley also focuses on "methodological differences" between the parties' cost of capital models.[338] Bulkley argues, for example, that the use of projected DPS and BVPS is not the appropriate basis to determine the growth rate, noting that there is "significant academic research" demonstrating that EPS growth rates are more relevant.[339] Bulkley expresses concern that the growth rate Woolridge uses for their constant growth DCF analysis is based on their "own judgment."[340] Bulkley also undermines the market risk premium used by Woolridge by citing a caveat provided by the survey's author which states, "the survey cannot be interpreted as the required equity premium of the market nor of a representative investor."[341] Bulkley's testimony on these issues was not refuted by any persuasive evidence, and we decline to reject the Settlement or to condition our acceptance based on Public Counsel's cost of capital testimony.

210 Based on all the evidence in the record, we find that the Settlement's proposed ROR of 7.29 percent is consistent with the public interest and results in rates that are fair, just, reasonable, and sufficient. We therefore agree with the Settling Parties that the proposed ROR should be accepted as lawful, supported by an appropriate record, and consistent with the public interest.

D. Whether the Commission Should Require PacifiCorp to Report on Additional Metrics

211 The Settlement Agreement identifies specific performance measures that PacifiCorp must track and report in meeting the requirements of RCW 80.28.425, and it provides that the Company must investigate the costs of providing affordability data at the census tract level and to provide this information in its next general rate case.[342]

212 After reviewing the record testimony and evidence, including the Settlement Agreement and Settlement Testimony, and for the reasons discussed below, we condition our acceptance of the Settlement on the Company (1) reporting on additional performance metrics and (2) evaluating the costs of tracking data at the census track level on a more expedited basis.

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[337] Bulkley, Exh. AEB-15T at 7:21-23.

[338] *Id.* at 25:17-20.

[339] *Id.* at 29:1-31:2.

[340] *Id.* at 31:6-8.

[341] *Id.* at 53:13-14.

[342] Settlement Agreement, ¶ 28.

Testimony

213 The parties to the proceeding propose a variety of performance measures, as required by RCW 80.28.425. In its initial testimony, the Company proposes performance measures based on the Commission ordered metrics in the 2022 Avista and PSE rate case orders. However, witness McVee testifies the Company excludes the energy burden related metrics due to the lack of immediately available data and requirement to retain a contractor for reporting.[343] Additionally, McVee proposes to modify one of the earnings metrics (Operating Revenues for Return divided by Total Rate Base) and would only track affordability measures by ZIP code. Further, the Company claims certain metrics are not available on a Washington-allocated basis and provides designations for each metric of Total Company, Washington-allocated, or not applicable.[344] McVee argues these modifications are appropriate "[d]ue to PacifiCorp's unique multi-jurisdictional nature" and that they "would not be informative or provide sufficient insight into PacifiCorp's performance."[345] The Company's proposed performance measures are identified in Table 5 below.

214 *Table 5: PacifiCorp Proposed Performance Measures*

Topic	Measure/Calculation	Basis	Rationale
Operational Efficiency	O&M Expense *divided* by Operating Revenue	Washington Allocated	PacifiCorp believes that Washington-allocated amounts are more relevant to assess performance under the MYRP.
	Operating Revenue *divided* by AMA Total Rate Base and	Washington Allocated	PacifiCorp believes that Washington allocated amounts are more relevant to assess

[343] McVee, Exh. MDM-1T at 30:8-12.

[344] *Id.* at 31, Table 4.

[345] *Id.* at 31:2-4.

	Operating Revenue *divided* by EOP Total Rate Base		performance under the MYRP.
	Current Assets *divided* by Current Liabilities	Total company	N/A
Earnings	*Operating Revenues for Return divided* by *Total Rate Base*	Washington Allocated	PacifiCorp believes this measure provides a more informative metric to compare to the authorized rate of return.
	Retained Earnings *divided* by Total Equity	Total Company	N/A
Affordability	Average Annual Bill Impacts (by zip code)	N/A	N/A
	Average Annual Bill *divided* by Average Median Income (by zip code)[346]	N/A	N/A

215 The Company suggests performance measure reporting as part of its annual Commission Basis Report (CBR) filing on a calendar year basis for both years of the MYRP. McVee testifies the Company intends to submit historical information for baseline purposes, similar to the Avista and PSE cases, in a compliance filing 60 days after the final order in this proceeding.[347]

[346] Staff classifies this performance measure as an Energy Burden metric. McGuire, Exh. CRM-1T at 50:8-10.

[347] McVee, Exh. MDM-1T at 32:2-9.

216 Staff does not contest the modification to the earnings metric for operating revenues, or the designated basis for the metric calculations (*i.e.*, Total Company versus Washington-allocated). However, Staff witness McGuire contests the Company's exclusion of the census tract data and the elimination of the two energy burden performance measures.[348] Regarding the census tract data, McGuire submits the Company has already made efforts to gather customer information by census tract, offering the June 2022 Washington Energy Burden Assessment.[349] Further, McGuire argues that incremental costs for new reporting requirements are not a sufficient reason to eliminate metrics the Commission already identified as "important performance measures that it would like to track," referencing the 2022 Avista and PSE rate case orders.[350] Finally, Staff emphasizes census tract data is currently proposed in the Commission's PBR policy proceeding.[351]

217 McGuire does not propose additional performance measures within this proceeding. Staff believes the additional metrics agreed to in the recent Avista and PSE settlements are not essential for the Commission at this stage of PBR implementation and considers the PBR policy proceeding in Docket U-210590 a more appropriate venue to contemplate additional performance measures. However, McGuire does not foreclose the possibility of supporting another parties' potential proposal if the "parties are able to clearly articulate how the proposed metric will be used to measure utility performance."[352]

218 Public Counsel supports the eight performance measures submitted in its direct testimony. However, witness Crane emphasizes that those measures should be incremental and not replace any existing metrics required by the Commission.[353] Further, Public Counsel recommends the Commission order the Company to include any performance measures adopted in the PBR policy docket during the pendency of the MYRP.[354] Finally, Public Counsel finds it reasonable for the Company to report on the same metrics ordered in the Avista and PSE 2022 rate proceedings for comparison purposes.[355]

219 TEP witness Bradley Cebulko recommends the Commission order a total of 69 performance measures in this proceeding; the 10 metrics the Commission ordered in the

[348] McGuire, Exh. CRM-1T at 51:3-5.

[349] *Id.* at 51:21-52:2.

[350] *Id.* at 51:17-19; 52:13-16 (internal citations omitted).

[351] *Id.* at 52:16-17.

[352] *Id.* at 53:4-19.

[353] Crane, Exh. ACC-1T at 32:21-33:2.

[354] *Id.* at 33:4-10.

[355] *Id.* at 33:3-4; 33:14-9.

Avista and PSE 2022 rate proceedings, and 59 additional metrics relating to either the settled Avista and PSE measures or the four regulatory goals in the PBR policy proceeding. Cebulko argues the Company is legally mandated to report measures for each regulatory goal and believes it necessary for the Commission to establish a "portfolio of metrics that holistically measure the utility's performance during the MYRP."[356]

220 Cebulko references the public interest standard of fair, just, reasonable, and sufficient rates (affordability), the requirement to provide safe and reliable service (resilient, reliable, and customer focused system), and CETA requirements for equity (equity in utility operations) and environmental stewardship (environmental improvements) as the legal basis for requiring performance metrics for each PBR regulatory goal.[357] Further, TEP argues the Company need not wait until the Phase 1 policy statement is issued before instituting performance measures for the four regulatory goals.[358] Finally, Cebulko recommends the Commission utilize the proposed performance measures in prudency determinations.[359]

221 TEP, like Staff, is not persuaded by PacifiCorp's proposal to omit the energy burden metrics based on arguments of unavailable data or the incremental cost of hiring an outside consultant to support such a request. Specifically, witness Cebulko argues CETA requirements to ensure the equitable distribution of energy and nonenergy benefits and reduction of burden to vulnerable populations and Highly Impacted Communities are inapposite to the Company's proposal.[360] TEP posits the only way for the Commission to know whether it is meeting these requirements is by tracking these types of metrics. Therefore, the Company "is not relieved of this obligation simply because it has not historically tracked this information."[361] Cebulko also points to the same 2022 Energy Burden Assessment as Staff to support the Company's ability to gather such data.[362] Cebulko submits that the Company has not evaluated the magnitude of the cost for an outside consultant to assist with this data reporting.[363]

222 While TEP does not recommend a calculation methodology for each performance measure, Cebulko recommends the Commission "require the Company to work with rate

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[356] Cebulko, Exh. BTC-1T at 9:10-13.

[357] *Id.* at 9:16-10:11.

[358] *Id.* at 11:7-9.

[359] *Id.* at 15:1-2.

[360] *Id.* at 12:10-13.

[361] *Id.* at 12:15-19.

[362] *Id.* at 13:5-11.

[363] *Id.* at 12:19-13:2; *See* BTC-3 for TEPs Data Request 031.

case parties to develop calculations and a reporting timeline for each of the metrics…and make a responsive filing within 45 days of the Final Order."[364]

223 On rebuttal, Company witness McVee agrees with Staff witness McGuire's position that any further performance metrics be considered within the context of the Commission's PBR proceeding.[365] However, McVee opposes the Staff and TEP recommendation to require tracking energy burden and affordability metrics by census tract. McVee renews the argument from their direct testimony that census level tracking will incur additional costs and "is not yet convinced that these costs would be justified at this time and may be better analyzed once all parties have more experience with the data currently available."[366] If the Commission requires this level of analysis, the Company requests cost recovery of those expenditures.[367]

224 The Company opposes TEP's recommendation to include the additional metrics required in the Avista and PSE 2022 proceedings or in the PBR proceeding. First, McVee disagrees with TEP's argument that there is a legal mandate for requiring those measures. Second, McVee argues that the Commission specifically noted, in the previous GRC proceedings, that the performance measures from those settlements were non-precedential. Third, McVee views the PBR proceeding objectives and measures as under development.[368] Finally, McVee argues the TEP recommended measures do not consider the Company's multi-jurisdictional operations.[369]

225 McVee also takes issue with Public Counsel's recommendation requesting the Commission order the Company to comply with any performance measures resulting from the PBR proceeding. McVee argues, "it is premature for the Commission to mandate compliance with performance measures that have not yet been adopted."[370]

226 McVee proposes in rebuttal testimony that the Company report on the following eight performance metrics (or performance measures) tracked on a ZIP-code basis:

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[364] *Id.* at 15:5-9.

[365] McVee, Exh. MDM-2T at 55:3-7.

[366] *Id.* at 53:19-54:5.

[367] *Id.* at 54:5-8.

[368] McVee, Exh. MDM-2T at 50:16-51:14.

[369] *Id.* at 54:13-18.

[370] *Id.* at 56:5-11.

Table 6: PacifiCorp's Proposed Performance Measures[371]

Topic	Measure	Total-Company or Washington-Allocated	Outcome
Operational Efficiency	O&M Total Expense *divided* by Operating Revenue	Washington Allocated	Assesses how much expense was incurred for every dollar earned. Results at 1.00 or greater might reflect reduced efficiency in controlling O&M spending
	Operating Revenue *divided* by AMA Total Rate Base and	Washington Allocated	Assesses efficient use of rate base to generate revenue. Results less than 1.00 or excessively low results might reflect reduced efficiency in utilizing rate base to generate revenue
	Operating Revenue *divided* by EOP Total Rate Base	Washington Allocated	Assesses efficient use of rate base to generate revenue. Results less than 1.00 or excessively low results might reflect reduced

[371] *Id.* at 47:17 (Table 7).

			efficiency in utilizing rate base to generate revenue.
	Current Assets *divided* by Current Liabilities	Total company	Assesses liquidity of current assets covering current liabilities. Results less than 1.00 might reflect issues or concerns with liquidity.
Earnings	Operating Revenues for Return *divided* by Total Rate Base	Washington Allocated	Assesses the amount of operating [revenues] in comparison with total rate base.
	Retained Earnings *divided* by Total Equity	Total company	Assesses the amount of earnings retained by a company compared to its total equity. Excessively low or high deviations might indicate that the company is paying out more earnings than reinvesting or that the company is retaining more than it needs, respectively. This metric will require baseline information to

			understand reinvesting and payout patterns.
Affordability	Average Annual Bill Impacts (by Zip code)	N/A	Assesses the average annual residential bill impacts to better understand, over time and by location, the affordability of residential rates using the same average energy usage from year to year for better comparability over time.
Energy Burden	Average Annual Bill *divided* by Average Median Income (by Zip code)	N/A	Assesses the average energy burden of residential customers over time and by location. Results greater than 6 percent indicate energy burden concerns.

Settlement and Supporting Testimony

227 In addition to the metrics proposed in PacifiCorp's rebuttal testimony and identified in Table 6 above, the Settlement requires the Company to report on the following metrics:

- Average annual bill for the Washington residential class by zip code.

- Percentage of LIBA program funding dispersed to Washington customers.

- Washington-allocated net-plant-in-service per customer.

- Washington-allocated O&M per customer.

- Change in average annual price per megawatt-hour for the residential class as compared to inflation.[372]

228 The Settlement also requires PacifiCorp to investigate the costs of providing affordability data at the census tract level and to provide this information in its next general rate case.[373]

229 ***Commission Determination.*** We find it reasonable to condition our acceptance of the Settlement on (1) the Company investigating the costs of providing census tract data on a more expedited timeline and (2) requiring the Company to report on 14 additional metrics.

230 Pursuant to RCW 80.28.425(7), the Commission must, by law, "determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan." We construe the statute as providing the Commission relatively broad discretion to approve performance metrics.[374]

231 In this case, the Settlement incorporates eight performance metrics proposed in the Company's rebuttal testimony and requires the Company to report on an additional five metrics, originally proposed by TEP.[375] Under the Settlement, the Company will report on these metrics as part of its annual Commission Basis Report filing.[376] The Company will also submit a compliance filing in this docket within 60 days of the entry of this Order providing historical baseline data for the years 2019 through 2023.[377] These

[372] Settlement ¶ 27.

[373] *Id.* ¶ 28.

[374] The Commission and the parties frequently use the terms "performance measures," "performance metrics," and "metrics" interchangeably.

[375] Settlement ¶ 28. *See also* PacifiCorp Settlement Brief ¶ 26.

[376] The Settlement does not directly address the reporting of metrics, but we construe paragraph 24 of the Settlement as adopting McVee's proposal in both direct and rebuttal testimony that these will be reported in annual Commission Basis Report Filings. *Compare* Settlement ¶ 24 *with* McVee, Exh. MDM-2T at 47:11-13. *Accord* McVee, Exh. MDM-1T at 32:2-4.

[377] The Settlement does not directly address the reporting of baseline historical data, but we again construe the Settlement in light of the Company's proposals for reporting of performance metrics as set forth in McVee's testimony. *See* McVee, Exh. MDM-1T at 32:7-9.

metrics are focused on operational efficiency, Company earnings, affordability, and energy burden.

232 The Commission has two primary concerns with the Settlement provisions on performance measures. First, the Settlement allows PacifiCorp, until the filing of its next general rate case near the end of a two-year rate plan, to investigate the costs of providing affordability data at the census tract level.[378] This is an excessive amount of time merely to investigate the costs of obtaining data. The Company has already provided some analysis at the census tract level in its 2022 Energy Burden Assessment,[379] and the Commission has already required PSE and Avista to report data at the census tract level.[380] We find it reasonable and appropriate to condition our acceptance of the Settlement on PacifiCorp investigating these costs on a more expeditious timeline:

> **CONDITION:**
>
> PacifiCorp must investigate the costs associated with providing affordability and energy burden data at census tract level and submit that information to the Commission as a compliance filing by the end of RY 1 under the MYRP approved by this Order.

233 In carrying out this task, it would be appropriate for PacifiCorp, after submitting its revised tariff sheets for RY1, to consult with its LIAC on the appropriate considerations and next steps for obtaining affordability and energy burden data at the census track level.

234 Second, we find that PacifiCorp should be required to report on a limited number of additional metrics. In developing performance measures, the Commission may consider several factors including, but not limited to, service reliability, clean energy or renewable procurement, demand side management expansion, and attainment of state energy and emissions reduction policies.[381] The Settlement's proposed metrics focus on operational efficiency, Company earnings, affordability, and energy burden. In effect, the Company proposes to adopt eight of the 10 metrics the Commission imposed on the PSE and Avista rate case settlements.[382] However, the Commission imposed 10 additional metrics on PSE and Avista in the context of settlements requiring metrics on numerous other issues. While we wish to avoid imposing an excessive number of metrics, it is reasonable to

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[378] *See id.* ¶ 28.

[379] McGuire, Exh. CRM-1T at 51:21-52:2. *Accord* Stokes, Exh. SNS-1T at 5:3-7.

[380] *Id.* at 52:6-9.

[381] RCW 80.28.425(7).

[382] McVee, Exh. MDM-1T at 30:2-10.

require PacifiCorp to track additional data reflecting other factors noted in RCW 80.28.425(7), such as reliability, the deployment of renewable resources, the fair compensation of utility employees, and the equitable distribution of benefits and reduction of burdens. Tracking a broader range of information would also allow for more informative comparisons between utilities.[383] The Company should therefore track and report on a limited number of additional metrics originally proposed by TEP witness Cebulko, as follows.

CONDITION:

In addition to the metrics identified in the Settlement and rebuttal testimony, PacifiCorp must track and report the following 14 metrics in its annual Commission Basis Reports:

- Total revenue occurring through riders and associated mechanisms not captured in the MYRP;
- Number and percentage of households with a high-energy burden (>6 percent), separately identifying known low-income, vulnerable populations, and highly impacted communities;
- Average excess burden per household;
- Residential arrearages by month, measured by location (zip code) and demographic information (known low-income customers, vulnerable populations, highly impacted communities, and all customers in total);
- Number and percentage of residential electric disconnections for nonpayment by month, measured by location (zip code) and demographic information (for known low-income, vulnerable populations, highly impacted communities, and all customers in total);
- Number and percentage of low-income customers who participate in bill assistance programs; [384]
- Percentage of utility energy efficiency program spending that benefits highly impacted communities and vulnerable populations;
- Percentage of utility spending on demand response, distributed energy resources, and renewable that benefits highly impacted communities and vulnerable populations;
- Percentage of utility electric vehicle program spending that benefits highly impacted communities or vulnerable populations;

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[383] *See* Crane, Exh. ACC-1CTr at 33:3-19.

[384] Cebulko, Exh. BTC-1T at 16 (Table 2, metric 4, 5, 6, 7, 12, 13) supporting the Customer Affordability goal.

- Percentage of utility-owned and supported EVSE by use case located within and/or providing direct benefits and services to highly impacted communities and vulnerable populations;
- Number and location of Public Charging Stations located in highly impacted communities;
- Percentage of dollars awarded to suppliers self-identifying as owned by people of color, women, and other marginalized groups of total dollars awarded to suppliers;[385]
- Energy and capacity of load reduced or shifted, and percent of load reduced or shifted, through load management activities conducted through EV tariffs;
- Percentage of known EVSE in load management programs.[386]

235 We therefore condition our acceptance of the Settlement to more fully reflect the factors noted in statute and to bring the metrics in this proposed MYRP more in line with those tracked by other investor-owned utilities in our state.

E. Whether the Commission should Condition the Settlement to Reject Certain Costs Related to Jim Bridger Units 1 and 2

236 The Settling Parties agree that, following the gas conversion of Jim Bridger Units 1 and 2, Washington will continue to pay for its allocated share of O&M costs and capital additions subject to the normal process for prudency review and cost recovery.[387] The Settling Parties agree to an overall adjustment that is approximately $2.5 million less than requested in the Company's original filing, reflecting the adjustments made by PacifiCorp on rebuttal.[388]

237 In responsive testimony, AWEC supported the Company's proposal, and Staff recommended the Commission prorate the costs of the Jim Bridger Units 1 and 2 gas conversion for the end of 2029, asserting that the Company will need to remove the units from service for Washington by that time.[389]

238 Public Counsel recommends that the Commission disallow revenue requirement amounts for the Jim Bridger Units 1 and 2 gas conversion because the Company failed to provide

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[385] *Id.* at 22 (Table 3, metrics 3, 4, 6, 7, 8, and 12) supporting the Advancing Equity in Utility Operations goal.

[386] *Id.* at 26 (Table 5, metrics 25 and 26) supporting the Resilient, Reliable, and Customer-focused Distribution System goal.

[387] Settlement Stipulation ¶ 14.

[388] *Id.* ¶ 15, Cheung, Exh. SLT-8T at 16:2-3.

[389] McGuire, Exh. CRM-1T at 35:17-23; Mullins, Exh. BGM-1CT at 36:14-17.

adequate documentation to support the post-conversation O&M amounts, and thus failed to meet their burden of proof for those costs.[390]

239 Public Counsel contends that PacifiCorp avoided providing evidence in response to data requests in support of the Company's calculations, instead providing only the numbers without justification.[391]

240 PacifiCorp witness Sherona Cheung argues that the amounts are fully justified. Cheung acknowledges the Company does not have "actual spend or historical data to indicate how these units will run post conversion."[392] Cheung states that the Company's calculations are a result of comparing the lower forecasted costs of post-conversion O&M expenses, considering avoided costs, against the actual historical O&M expense from the test period.[393]

241 ***Commission Determination.*** We find that the forecasted O&M costs of Jim Bridger Units 1 and 2 are supported by the record. We are thus disinclined to impose any condition on the Settlement regarding those costs. While we acknowledge that precise known costs based on the standard measure of a historical test year are unavailable, we find that PacifiCorp has met its burden of showing the basis of those cost calculations on rebuttal. The costs are based on the best effort calculations of the future expenses for the converted units with reference to the historical test year data when they were operating as coal-burning units. Considered in these calculations are the assumed cost savings post-conversion and the Company's budget forecast.

242 To disallow these costs would be to disallow actual, recoverable operating costs during the MYRP because of the impossibility of forecasting the cost of operating the converted plants based on historical test year data, not because of the prudency, fairness, or accuracy of the projected costs. Public Counsel has not provided an alternate measure for these projected costs, and so we have no conflicting method against which to weigh the Company's calculations. We thus find that the Company's calculations are adequately supported and sufficient to meet its burden of proof regarding the adjusted expenses, and that allowing the costs is necessary to produce rates that are just, reasonable, and sufficient.

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[390] Public Counsel Post-Settlement Brief Sec. IV(A)(2)(b).

[391] *Id.* IV(A)(2)(b).

[392] Cheung, Exh. SLT-8T at 13:9-10.

[393] Cheung, Exh. SLT-8T at 15: 18-21.

243 Further, without a robust alternative methodology to calculate allowable recovery of these expenses, we decline to upset the Settlement Stipulation in which the costs were negotiated and to which the Settling Parties agreed.

F. Review of plant provisionally included in rates

244 The Settling Parties agree that the annual provisional pro-forma capital reviews will be performed at the portfolio level except for Gateway South, Gateway West, and new wind resources.[394] The Settlement provides for a process for annual, provisional pro-forma capital reviews and addresses the application of the earnings test in RCW 80.28.425(6).[395] PacifiCorp will "refund all amounts for plant not placed in service by the forecasted date, regardless of the Company's earnings."[396]

245 In its Brief, Public Counsel argues that "aggregating project cost reconciliation into a portfolio would prevent the necessary equity analysis of each project."[397] Public Counsel also recommends that the Commission require "a detailed reconciliation of costs for each project included in the Company's MYRP, and not just for major projects proposed by PacifiCorp."[398]

246 ***Commission Determination.*** We have considered Public Counsel's objections but find them unpersuasive. The Settlement requires the Company to develop a distributional equity analysis for investments situs-assigned to Washington, which as discussed in Section II.B is a reasonable path forward for considering equity more fully in future filings. The Settlement also makes clear that Gateway South and other projects are not subject to portfolio level review, which ameliorates any possible concerns with portfolio level review.[399] PacifiCorp is required to "refund all amounts for plant not placed in service by the forecasted date, regardless of the Company's earnings."[400] Finally, the Settling Parties explain that "all plant placed in service during the 'provisional pro forma period' is subject to a prudence examination, including those projects placed in service that were not identified in the general rate proceeding."[401] These provisions persuade us

[394] Settlement ¶ 29.

[395] *Id.* ¶ 30.

[396] *Id.*

[397] Public Counsel Settlement Brief at 23.

[398] *Id.* (citing Crane, Exh. ACC-1Tr at 13:9-20).

[399] Settlement ¶ 30.

[400] *Id.* ¶ 30.a.

[401] Joint Testimony, Exh. JT-1T at 15, n. 47.

that it is unnecessary either to reject the Settlement or impose additional conditions, as Public Counsel appears to suggest.

247 The Settlement also allows the Company to include additional investments in rates that entered service after the filing of its direct testimony.[402] But Staff witness McGuire explained at the hearing that these investments entered service in 2022; that Staff was able to conduct discovery on final project costs prior to filing responsive testimony; and that it is not necessary to subject these projects to a later prudency review.[403]

III. THE REMAINING DISPUTED ISSUES REGARDING POWER COSTS

248 The Settling Parties have filed a multiparty settlement that resolves all but two issues in this proceeding: (1) PacifiCorp's forecasted Net Power Costs (NPC) and (2) the Company's Power Cost Adjustment Mechanism (PCAM). In its initial testimony, the Company indicated a 2024 NPC forecast of about $199 million.[404] PacifiCorp also proposed modifying the PCAM by eliminating "the deadband and asymmetrical sharing bands from the PCAM due to the difficulty in accurately forecasting [NPC]."[405] We will address NPC forecast and the PCAM in turn.

A. NPC Forecast

249 **PacifiCorp's Net Power Costs (NPC) Forecast** According to PacifiCorp, increased NPC are a primary driver for the Company's general rate request.[406] To be more specific, Company witness McVee forecasts total-company base NPC for 2024 to be $2.6 billion. On a Washington-basis the total NPC included in Year 1 is approximately $199 million, which has increased by $53.8 million over amounts approved in the Company's 2021 Power Cost Only Rate Case (PCORC).[407] Witness McVee alleges that the Washington-allocated NPC forecast represents a 37 percent increase in 2024 over the level approved in the 2021 PCORC and is part of a sustained upward trend.[408]

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[402] Settlement ¶ 9.b ("The Company will additionally reflect all projects actually placed in service before December of 2022 as traditional pro-forma capital additions.").

[403] McGuire, TR 223:17-224:3.

[404] McVee, Exh. MDM-1T at 8:21-23.

[405] Painter, Exh. JP-1T at 1:18-21.

[406] McVee, Exh. MDM-1T at 8:17-19.

[407] Mitchell, Exh. RJM-1CTr at 4:8-15.

[408] McVee, Exh. MDM-1T at 8:20-9:7.

250 PacifiCorp witness Ramon J. Mitchell provides an overview of the Company's proposed NPC adjustment that is included in Year 1 of the MYRP. The Company does not include a separate NPC adjustment for Year 2 as it proposes several updates over the course of the MYRP as shown in Table 7 below. Mitchell testifies the NPC Updates will be consistent with those included in the 2021 PCORC compliance filing.[409]

Table 7: Compliance filing dates for NPC updates proposed by PacifiCorp.[410]

Compliance Filing Date	Rate Effective Date	Official Forward Price Curve Date	Purpose of NPC Update
February 16, 2024	March 1, 2024	December 2023	Provide most accurate NPC for first rate effective date
January 31, 2025	March 1, 2025	December 2024	Incorporate new resources into the forecast to match costs and benefits for second rate year
October 31, 2025	January 1, 2026	September 2025	Remove Jim Bridger and Colstrip coal facilities from NPC forecast to comply with CETA

251 Witness Mitchell testifies the most significant drivers for the increased NPC are related to purchased power and natural gas fuel expenses, stemming from changes in power market prices, regulatory compliance with the Ozone Transport Rule (OTR), and impacts from the Washington Cap and Invest Program.[411] Mitchell provides an NPC cost reconciliation table shown below.

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[409] Mitchell, Exh. RJM-1CTr at 38:2-3.

[410] *Id.* Table 5

[411] Mitchell, Exh. RJM-1CTr at 12:2-13:4, 13:13-23.

Net Power Cost Reconciliation ($)		
	($ millions)	$/MWh
WA 2021 PCORC Final Forecast	145.2	32.47
Increase/(Decrease) to NPC:		
Wholesale Sales Revenue	(19.56)	
Purchased Power Expense	35.10	
Coal Fuel Expense	(6.43)	
Natural Gas Fuel Expense	42.76	
Wheeling and Other Expense	1.93	
Total Increase to NPC	53.80	
WA 2024 GRC Initial Forecast	199.0	43.47

Response Testimony

1. Staff's Response Testimony

252 Staff witness John D. Wilson provides several recommendations in responsive testimony. These recommendations, if accepted by the Commission, decrease NPC by $554,774 for Year 1.[412] First, Wilson argues that the Energy Imbalance Market Greenhouse Gas (EIM GHG) benefits forecast used by PacifiCorp should use a simple trend of monthly values instead of the historic average. Wilson's EIM GHG benefit trend analysis matches the forecast period used by the Company. This change results in a reduction of $187,005 in the 2024 NPC forecast.[413]

253 Wilson also argues that PacifiCorp should use the median annual minimum inventory of the past decade instead of assuming a total withdrawal of gas each year when modeling the cost forecast for the Clay Basin Storage facility.[414] Wilson testifies that this change is more aligned with the Company's other practices for forecasting on a normalized basis.[415] Wilson states that this recommendation reduces Clay Basin savings from $1,988,037 to $681,197, or a net increase in system NPC of $1,306,841,[416] and increases

[412] Wilson, Exh. JDW-1CT at 7:10-11:17, 8 Table 1.

[413] *Id.* at 10:16-11:2.

[414] *Id.* at 12:6-20.

[415] *Id.* at 12:15-17.

[416] *Id.* at 13:2-4.

pipeline reservation fees from $3,898,888 to $3,924,338, or a net increase of $25,450.[417]

254 Wilson also proposes corrections to multiple other NPC items. To that point, Wilson claims that he is aware of four errors that the Company has acknowledged in responses to data requests, which include:

- An error in the cost for the Top of the World PPA;
- An error in the cost for certain Qualified Facilities;
- Several formula errors in the calculation of wheeling cost associated with BPA transmission; and
- Errors in geothermal unit fuel and thermal unit variable O&M costs.[418]

2. AWEC's Response Testimony

255 In its response testimony, AWEC witness Bradley G. Mullins recommends that PacifiCorp be required to perform an update of NPC in order to align the forecast periods of the model and the rate effective periods of the MYRP.[419] Mullins claims that failure to do so will misstate production of Jim Bridger Units 1 and 2 while also excluding benefits from wind facilities coming online late in the test period.[420] Mullins suggests that the update should be filed January 15, 2024, for Rate Year 1 and January 15, 2025, for Rate Year 2, allowing for 1.5 months for further adjudication if necessary.[421] Mullins also proposes that the updates be limited in scope, allowing for updates to the study periods, the forward price curve, executed power purchase agreements, loads, and the production tax credits, with no changes to the modeling methods.[422]

256 Additionally, Mullins claims that it is not possible to perform a limited NPC update in 2025 to remove Jim Bridger Units 3 and 4 and Colstrip Unit 4, since the NPC will have changed significantly in the interim and will result in an inconsistent NPC forecast.[423] Mullins proposes an alternative where PacifiCorp files a Limited Issue Rate Case on

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[417] *Id.* at 13:11-13.

[418] *Id.* at 14:10-18:17.

[419] Mullins, Exh. BGM-1CT at 20:21-21:2.

[420] *Id.* at 20:1-20.

[421] *Id.* at 21:3-12.

[422] *Id.* at 21:13-22:6.

[423] *Id.* at 22:22-23:3.

April 1, 2025, with an effective date of January 1, 2026. Mullins claims this alternative would allow interested parties to fully audit the Company's forecast in a holistic manner to ensure consistency.[424]

257 Further, Mullins testifies that PacifiCorp's current power cost modeling results in a suboptimal dispatch for Washington customers. Mullins claims that this occurs when market sales are assumed to fill Washington's short position[425] in the Washington Balancing Adjustment[426] instead of unused gas capacity at Chehalis, Hermiston, and Jim Bridger Units 1 and 2.[427] Mullins recommends an approach to resolving a short position in Washington. First, if Chehalis, Hermiston, or Jim Bridger Units 1 and 2 have unused capacity that is not held in reserve, and they are cheaper than market prices, they would be dispatched to fill the short position.[428] Next, if there is a remaining short position, the cost calculation for Washington's hourly load would occur on an hourly basis as opposed to using monthly averages. Mullins also recommends that the Day-Ahead/Real-Time adjustment not be changed in Washington due to its short position, matching the application of EIM benefits.[429]

258 Mullins continues by recommending the exclusion of market capacity limitations in AURORA when modeling the NPC forecast.[430] Mullins claims that the Mid-Columbia, Palo Verde, and Four-Corners market hubs are all liquid markets and should not have a market capacity limit, citing PacifiCorp's reasoning in the Wyoming 2014 GRC.[431] Mullins claims that the removal of the market capacity limits did not cause the AURORA

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[424] *Id.* at 23:4-9.

[425] Washington's short or long position is the comparison of Washington's modeled input and output under the Company's Washington Inter-Jurisdictional Allocation Methodology (WIJAM). A short position means that Washington's loads are greater than its output during a given time period.

[426] The Washington Balancing Adjustment is the calculation of costs or benefits assigned to Washington under the WIJAM based on its short or long position.

[427] Mullins, Exh. BGM-1CT at 38:4-18.

[428] *Id.* at 38:19-39:6.

[429] *Id.* at 40:11-17.

[430] *Id.* at 45:16-17.

[431] *Id.* at 44:8-14.

model to make unlimited sales at any particular market hub,[432] and resulted in an approximate increase of $341,965 to Washington-allocated revenue requirement.[433]

259 Finally, AWEC recommends excluding the Ozone Transport Rule from Wyoming in the final NPC studies.[434] AWEC contends that Wyoming is not subject to the final rule issued by the EPA, and that it is highly unlikely that the rule will be applied to Wyoming or Utah during the 2024 ozone season.[435]

3. Sierra Club's Response Testimony

260 In Sierra Club's response testimony, witness Ronald J. Binz submits that the Commission should examine and adopt competitive bidding as a method for PURPA compliance to improve outcomes for stakeholders.[436]

4. Public Counsel's Response Testimony

261 Public Counsel witness Robert L. Earle opines that the timing allowed for review of the NPC updates is too short. Earle questions why the compliance filing for the first NPC update could not be moved to January 31, 2024, allowing for a one-month review process similar to the second NPC update.[437]

Rebuttal Testimony

262 In its rebuttal testimony, PacifiCorp replies to a number of the arguments the parties raise in their response testimony. Before our review and recounting of PacifiCorp's reply, we note PacifiCorp witness Mitchell provides an update on NPC corrections in addition to Staff's recommendations. Mitchell notes that the cumulative NPC impact is less than the sum of the individual NPC impacts because "the cumulative effect of two or more corrections or updates cancel portions of each other out and this is referred to as a

[432] *Id.* at 45:18-46:3.

[433] *Id.* at 45:10-14.

[434] *Id.* at 47:16-17.

[435] *Id.* at 46:12-47:14

[436] Binz, Exh. RBJ-1T at 6:1-3.

[437] Earle, Exh. RLE-1CT at 15:13-18, 13:4

'system balancing impact of adjustments.'"[438] In aggregate, the updates decrease NPC by \$8.6M,[439] and the isolated values of those updates can be found in Table 8 below.

Table 8: NPC Updates from PacifiCorp witness Mitchell's rebuttal testimony

Update440	NPC Updates (\$million)
Startup Costs – Correction	(\$3.0)
Wind Capacity Factors – Correction	(\$0.61)
Contingency Reserves for Non-Owned Generation – Correction	\$3.9
DA/RT Volume Component – Correction	\$5.2
EIM GHG Benefits – Modelling Update	(\$0.13)
Thermal Generation Marginal Costs – Modeling Update	(\$9.7)
Ozone Transport Rule removal	(\$2.2)
Updated coal fuel assumptions	(\$21.9)
Removal of GHG bids on hydroelectric resources into the EIM	\$0.39
Total Change	**(\$8.6)**

1. PacifiCorp's Rebuttal to Staff's Response Testimony

263 In reply to the points raised in Staff's response testimony, Mitchell agrees with Staff that it is helpful to distinguish between fixed and variable costs but contends that each type must be defined.[441] As Staff does not provide any different definitions for fixed costs, Mitchell maintains its prior classifications of costs, such as Fixed Pipeline Reservation Fees and wheeling expense, are variable costs, and maintains its position that there are only variable costs in the NPC forecast.[442]

264 PacifiCorp proposes to adopt the modeling updates recommended by Staff witness Wilson for the EIM GHG benefits and the Clay Basin cost forecast. The Company

[438] Mitchell, Exh. RJM-3CT at 22:15-18.

[439] *Id.* at 22:10-14.

[440] *Id.* at 15:1-29, 18:6-8, 21:4-6, 21:22-22:8.

[441] Mitchell, Exh. RJM-3CT at 3:1-7.

[442] *Id.* at 3:8-4:4.

proposes the use of Staff's methodologies but updated with the latest information available at the time of the NPC forecast for the compliance filing.[443]

265 PacifiCorp also proposes to adopt Staff's adjustments into the NPC forecast based on errors that the Company had previously acknowledged. For the correction of the outdated data used in AURORA for the thermal unit variable O&M, Mitchell proposes using the latest costs available at the time of the NPC forecast for the compliance filing.[444]

266 Finally, Mitchell made modeling corrections and updates to the 2024 NPC forecast that reduce NPC by $8.8 million on a Washington-allocated basis and amounting to a revenue requirement reduction of approximately $9.2 million.[445]

2. *PacifiCorp's Rebuttal to AWEC's Response Testimony*

267 Turning to PacifiCorp's rebuttal to AWEC's response testimony, the Company rejects AWEC's proposal to modify NPC forecast periods to match rate effective periods, asserting that the Company's current practice appropriately aligns costs and possibly lowers Washington customer rates.[446] Company witness Cheung testifies that, as far as she is aware, there is no requirement or Commission practice to match the rate effective and NPC forecast periods.[447] Cheung claims that the NPC forecast is modeled on a calendar year basis to match underlying capital additions in the revenue requirement model, which itself is modeled on a calendar year basis to ease administrative burdens of the proposed provisional plant review process.[448]

268 Cheung also asserts that the Company could hypothetically follow AWEC's recommendation to align the forecast period and the rate effective period, but that doing so would take months and complicate the modeling process by changing the starting date of all ratemaking adjustments.[449] Cheung claims that the change would potentially result in higher costs for Washington customers. Cheung also acknowledges that the

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[443] *Id.* at 4:13-17.

[444] *Id.* at 4:18-5:1.

[445] Cheung, Exh. SLC-8T at 25:17-19; Mitchell, Exh. RJM-3CT at 15-23.

[446] Cheung, Exh. SLC-8T at 71:9-14.

[447] *Id.* at 69:10-22.

[448] *Id.* at 68:13-69:9.

[449] *Id.* at 70:1-10.

Commission has previously determined that the mismatch of periods did not cause any issues.[450]

269 PacifiCorp witness Mitchell offers his testimony regarding AWEC's proposal about the Washington Balancing Adjustment. Mitchell testifies that there are multiple issues with AWEC's proposal regarding the Washington Balancing Adjustment that make it incomplete or infeasible.[451] Specifically, Mitchell identifies the following issues:

> 1. Since the WIJAM is designed to optimize PacifiCorp's resources on a total-system basis, increasing gas dispatch to address Washington's short position would require accounting for other changes to non-NPC effects.[452]
>
> 2. Dispatching gas resources to fill Washington's short position would create issues with balancing wind and solar resources across PacifiCorp's entire service territory.[453]
>
> 3. Due to transmission constraints, AWEC's proposal would require dispatching non-Washington resources to lower Washington's NPC, which is not permissible under the WIJAM structure.[454]
>
> 4. AWEC's proposal would increase carbon emissions.[455]
>
> 5. AWEC's workpaper contains multiple errors.[456]

Mitchell concludes that AWEC's proposal would increase Washington NPC by approximately $41 million.[457]

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[450] *Id.* at 69:20-22 (citing Docket No. UE-210402, Order 06 at ¶¶ 137-138 (March 29, 2022).

[451] Mitchell, Exh. RJM-3CT at 9:3-5.

[452] Mitchell, Exh. RJM-3CT at 9:6-10:8.

[453] *Id.* at 10:9-11:13.

[454] *Id.* at 11:14-12:6.

[455] *Id.* at 12:7-10.

[456] *Id.* at 12:11-13:11.

[457] *Id.* at 13:12-13.

270 PacifiCorp offers witness Isaiah M.R. Zacharia's testimony to respond to AWEC witness Mullins and to address market capacity limits.[458] Zacharia testifies in support of the Company's inclusion of market capacity limits in AURORA. Zacharia opposes AWEC's proposal to remove market capacity limits.[459] Zacharia argues that there are no "liquid" markets that exist for PacifiCorp,[460] as evidenced by the declining volume of transactions in bilateral wholesale markets.[461] Zacharia also notes that AWEC's claim that PacifiCorp only uses four annual values to calculate market capacity limits[462] is misleading, since each annual value is calculated using hourly data from that year.[463]

271 Finally, Company witness Eshwar Rao offers testimony regarding AWEC's proposed application of Ozone Transport Rule (OTR). Rao recommends that the Commission remove the OTR in its entirety from the Company's NPC Forecast.[464] After speaking to Company attorneys, Rao does not believe that the OTR is likely to apply during the MYRP time period.[465] Rao notes that this goes beyond the AWEC recommendation, which did not specify that Utah should be excluded as well.[466]

4. PacifiCorp's Rebuttal to Sierra Club's Response Testimony

272 PacifiCorp witness McVee replied to Sierra Club witness Binz's assertion that the Commission should examine and adopt competitive bidding as a method for PURPA compliance outcomes for stakeholders.[467] To that point, McVee testifies that PacifiCorp's general rate case is not an appropriate venue to consider Sierra Club's proposal for examining competitive bidding as a method for PURPA compliance. McVee notes that it should be done in a proceeding open to all relevant interested persons.[468]

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[458] Zacharia, Exh. IMRZ-1CT at 1:12-15.

[459] *Id.* at 8:10-16.

[460] *Id.* at 5:1-19.

[461] *Id.* at 6:1-8:3.

[462] Mullins, Exh. BGM-1CT at 42:9-11.

[463] Zacharia, Exh. IMRZ-1CT at 8:4-9.

[464] Rao, Exh. EVRR-1T at 4:5-7.

[465] *Id.* at 2:15-18.

[466] *Id.* at 3:6-4:3.

[467] Binz, Exh. RBJ-1T at 6:1-3.

[468] McVee, Exh. MDM-2T at 84:4-12.

5. Public Counsel's Response Testimony

273 PacifiCorp does not provide rebuttal on the opinion raised by Public Counsel witness Earle regarding the review period for NPC updates.

Cross-Answering Testimony

1. Staff Reply to AWEC Testimony

274 In response to AWEC's concerns regarding the forecast NPC period, Staff witness Wilson recommends that the Commission require the use of a forecast NPC period that is as closely aligned with the rate effective period as practicable.[469] Wilson testifies that the mismatched forecast NPC and rate effective periods are not supported by law, since PacifiCorp has had ample time to prepare, and the mismatch has a material impact on the outcome.[470]

275 Wilson also recommends that the Commission reject PacifiCorp's proposed forecast NPC based on the calendar year, finding that it unreasonably raises rates.[471] Wilson concurs with the two main issues raised by AWEC witness Mullins regarding the forecast NPC period and rate year. The first issue is the conversion of Jim Bridger Units 1 and 2 to gas, which AWEC finds contributes to approximately 76 percent of Washington's net short position. The second issue is the misstatement of benefits from wind facilities because of the mismatched periods.[472]

276 Wilson argues that the mismatched forecast NPC and rate effective periods will result in an overcollection of revenues. Wilson adds that both the current PCAM structure and Staff's proposal to change the PCAM structure would not result in a full refund of over-collected revenue, leading to a windfall for PacifiCorp.[473] If the Commission does approve PacifiCorp's proposed forecast NPC, Wilson recommends that the forecast should be updated to correct the additional errors acknowledged by PacifiCorp.[474]

[469] Wilson, Exh. JDW-24T at 2:1-3.

[470] *Id.* at 5:8-21.

[471] *Id.* at 2:3-5.

[472] *Id.* at 4:8-5:7.

[473] *Id.* at 6:1-6.

[474] *Id.* at 2:5-7, 8:16-10:2.

277 Regarding the Washington Balancing Adjustment, Wilson argues that if the Commission finds Mullins to be correct, the Washington Balancing Adjustment should be changed accordingly.[475] Wilson does not have any specific recommendations but agrees in principle that it is not reasonable for PacifiCorp to use the average monthly price of system balancing purchases to settle Washington's short position if gas plants in Washington are available at a lower cost. However, Wilson concedes that AURORA modeling is outside the scope of his testimony.[476] Wilson recommends that the Commission order PacifiCorp to include workpapers providing the actual O&M costs and calculations for O&M cost rates used in forecast NPC in future filings.[477]

278 Wilson recommends that the Company correct the additional NPC issues acknowledged by the Company in response to data requests. The errors are related to calculations for the contingency reserve requirement, the in-model shadow price, short-term physical power transactions, the thermal generation fuel startup cost, and wind capacity.[478]

Post-Hearing Briefs

279 PacifiCorp, AWEC, and Staff filed Post-Hearing Briefs on disputed issues falling outside of the Settlement. In their Briefs, the Parties repeat many of the same arguments set forth in their testimony and exhibits. Thus, we will address only the pertinent points and arguments of parties in rendering our decision from each brief, in turn.

1. PacifiCorp Brief on Net Power Costs Forecast

280 In its Brief, the Company alleges there are only six NPC issues that remain in dispute. Accordingly, PacifiCorp alleges:

1. Staff's and AWEC's recommendation to forecast NPC based on the rate year violates the matching principle because all other revenue requirement items are forecast using calendar years.[479] The Company argues that the result is that customers receive NPC benefits without paying the matching costs incurred to produce those benefits. Moreover, while using Rate Year 1 to forecast NPC

[475] *Id.* at 8:11-12.

[476] *Id.* at 7:18-8:10.

[477] *Id.* at 20:9-17.

[478] *Id.* at 8:6-9:10.

[479] PacifiCorp Post-Hearing Brief at 2, ¶ 5. Joint Issues Matrix at 7-8.

reduces rates for the first year, that decrease is more than offset in Rate Year 2, creating overall higher rates for Washington customers.[480]

2. AWEC's recommendation to use gas generation to close the open position created by WIJAM fails to account for reserve and transmission requirements, thereby selectively taking gas generation to serve Washington without accounting for the offsetting costs incurred to take that generation. PacifiCorp also contends that AWEC's modeling contains errors that when corrected significantly increase Washington-allocated NPC.[481]

3. AWEC's recommendation to remove market capacity limits not only increases NPC, but it is also contrary to the undisputed trend in declining off-system sales in recent years. [482]

4. AWEC selectively objects to only one NPC correction the Company identified in its rebuttal testimony—the correction to the Day Ahead and Real Time (DA/RT) Volume Component.[483] Without the correction, PacifiCorp asserts that the DA/RT adjustment imputed revenue that was more than 10 times higher than any historical level of arbitrage revenue received by the Company. Correcting the error imputes reasonable arbitrage revenues into the NPC forecast based on historical actual results. To the extent AWEC's objection to the DA/RT correction is based on the fact the Company proposed the correction in rebuttal, all the Company's rebuttal updates and corrections should be removed from the NPC forecast, which increases Washington-allocated NPC.[484]

5. The Commission should reject AWEC's objections to the Company's updated fuel costs for the Jim Bridger coal-fired plant, which include Bridger Coal Company (BCC) reclamation and depreciation expenses that are not otherwise recovered through the balancing account approved by the Commission in the Company's last general rate case, docket UE-191024 (2020 rate case).[485] AWEC allegedly supports the Company's proposal to include the Bridger's coal units in Washington rates through 2025,[486] which necessitates the updated reclamation and depreciation costs.

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[480] *Id.* at 2, ¶ 5.

[481] *Id.* at 3, ¶ 5.

[482] *Id.* at 3, ¶ 5. Joint Issues Matrix at 9.

[483] *Id.* at 3, ¶ 5. Joint Issues Matrix at 10.

[484] *Id.* at 3, ¶ 5.

[485] *Id.* at 3-4, ¶ 5. Joint Issues Matrix at 13.

[486] *Id.* at 4, ¶ 5. Joint Issues Matrix at 7.

6. AWEC raised an entirely new adjustment at hearing, suggesting that the NPC forecast should impute incremental wheeling revenue associated with the Gateway South transmission line.487 Not only is this adjustment procedurally improper and entirely without evidentiary support, it ignores the fact that (1) wheeling revenue is not included in NPC; (2) the NPC forecast includes the NPC benefits of Gateway South; and (3) the base rates include a pro forma wheeling revenue adjustment for 2024 and 2025, in part, to account for new transmission investments, including Gateway South.488

2. *Staff's Brief on Net Power Cost Forecast*

281 Staff acknowledges that in rebuttal, the Company proposed a 2024 net power forecast of $190.2 million,[489] a reduction from the originally proposed $199 million, while Staff recommends a forecast of $184.8 million.[490] Staff also recommends the Commission order PacifiCorp to remove coal from net power cost rates by filing a power cost only rate case (PCORC) in April of 2025, with rates effective January 1, 2026, concurrent with removal of the related non-NPC coal-fired resource costs.[491]

282 Staff maintains that forecasting NPC based on the rate year rather than the calendar year is more likely to lead to an accurate NPC forecast and reduce the need for significant fluctuations in rates.[492]

3. *AWEC's Brief on Net Power Cost Forecast*

283 AWEC maintains that PacifiCorp has created a mismatch between the NPC forecast period and the rate-effective period.[493] AWEC asserts that "this is particularly important in Rate Year 1 because, as Mr. Mullins points out, Jim Bridger Units 1 and 2 are scheduled to be out of service for a portion of 2024, and the Company will be including

[487] *Id.* at 4, ¶ 5. Pepple, TR. 89:20-24.

[488] *Id.* at 4, ¶ 5.

[489] Staff Post-Hearing Brief at 1, ¶ 1; Staff states that in their brief, all NPC forecast figures refer to Washington allocations unless otherwise specified.

[490] *Id.* at 2, ¶ 3.

[491] *Id.* at 1, ¶ 2.

[492] *Id.* at 3, ¶ 5.

[493] AWEC Post-Hearing Brief at 12, ¶ 22.

substantial new transmission and wind resources in customer rates at the end of 2024."[494] This means that a calendar year 2024 NPC forecast will result in an artificially high forecast relative to the actual level of NPC customers should expect during the rate period.[495]

284 Second, while AWEC initially proposed to calculate rate year 2 NPC over RY2, given CETA's requirement to remove coal from rates by January 1, 2026, AWEC would not oppose using calendar year 2025 for the rate year 2 update provided that rates went into effect on January 1, 2025. Extending the NPC forecast for RY2 into 2026 creates a mismatch of costs and benefits, because this update would need to remove coal from rates but would not make more holistic adjustments necessary to ensure a just and reasonable power cost forecast. In order to ensure a timing match, AWEC recommends that the RY2 NPC update take effect on January 1, 2025, instead of the RY2 rate-effective date.[496] AWEC asserts that a RY2 NPC update is necessary under the matching principle because the second rate year will include the costs of substantial new transmission and wind resources, which will be included in customer rates.[497]

285 Third, AWEC argues that removing coal from rates requires more than the limited power cost update proposed by PacifiCorp. AWEC notes the rapidly declining depreciation of PacifiCorp's wind facilities, which would partially offset the NPC increase likely to occur from removing coal from rates.[498] Given the significance of removing coal from rates, AWEC avers that PacifiCorp should be required to perform a full power cost update through a PCORC filed no later than April 1, 2025. The PCORC should give the parties the opportunity to propose adjustments to incorporate offsetting benefits that mitigate the impact of removing coal from rates.[499]

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[494] *Id.* at 12, ¶ 22. The Gateway South transmission line is projected to be online by October 2024 at a Washington-allocated cost of $163.2 million and Gateway West is projected to be online by December 2024 at a Washington-allocated cost of $22.8 million. Vail, Exh. No. RAV-1T at 13 (Table 1). The 400 MW Rock Creek I wind project is also projected to be online in December 2024. McGraw, Exh. No. RDM-1CT at 5:3-4.

[495] AWEC Post-Hearing Brief at 12, ¶ 22.

[496] *Id.* at 14, ¶ 26.

[497] *Id.* at 14, ¶ 26. AWEC also claims that in addition to the Gateway transmission projects and the Rock Creek I wind project, a second 400 MW Rock Creek II wind project is projected to come online in September 2025. McGraw, Exh. No. RDM-1CT at 5:4-5.

[498] AWEC Post-Hearing Brief at 15, ¶ 27; Mullins, Exh. No. BGM-1CT at 22:16-21.

[499] *Id.* at 15, ¶ 27.

286 In addition, for the 2024 and 2025 NPC updates, AWEC states that PacifiCorp proposes to "update[e] elements of the NPC forecast as approved by the Commission in the 2022 PCORC."[500] Although not entirely clear, AWEC believes that this would include updates to the following:

- Total-Company load;
- Contracts for wholesale sales and purchases of electricity, natural gas, and wheeling;
- Market prices for electricity and natural gas or the official forward price curve;
- Coal fuel expenses;
- Transmission capability;
- Characteristics of the Company's generation facilities; and
- Planned outages and forced outages of the Company's generation resources.[501]

287 AWEC first recommends that updates to these items exclude any complex modeling changes. AWEC claims that such a restriction is necessary to ensure other parties are not prejudiced in their review of the NPC update, given the limited time between the update and the rate-effective date.[502]

288 Next, AWEC recommends that PacifiCorp be required to update the production tax credit (PTC) rate and the amount of PTCs expected for 2025. The PTC rate will increase to 2.9 cents/KWh in 2024 and is virtually certain to increase again to 3.0 cents/KWh in 2025. By the time of PacifiCorp's 2025 NPC update, this increase will be known with near certainty, and PacifiCorp should be required to value its PTCs consistently with the most current information. Furthermore, the amount of PTCs PacifiCorp will generate will also increase significantly due to the new Rock Creek wind facilities.[503]

289 AWEC contends that PacifiCorp should also update expected increases in wheeling revenues it will receive when the new Gateway transmission lines go into service. According to AWEC, PacifiCorp earns wheeling revenues from third parties that use its transmission system pursuant to the Company's Open Access Transmission Tariff

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[500] *Id.* at 15, ¶ 29; Mitchell, Exh. No. RJM-3CT at 7:16-17.

[501] *Id.* at 15, ¶ 29; Docket UE-210402, Staples, Exh. No. DRS-1CT at 4:22-5:11.

[502] *Id.* at 16, ¶ 29.

[503] *Id.* at 16, ¶ 30.

(OATT). These wheeling revenues are based on PacifiCorp's annual transmission revenue requirement (ATRR), which is updated annually through the Company's formula rate.[504] AWEC alleges that the inclusion of the Gateway transmission projects in PacifiCorp's ATRR through the formula rate process will significantly increase the Company's wheeling revenues from third parties, which should be passed back to customers at the same time that customers begin paying for these new transmission lines.[505]

290 Finally, AWEC asserts that PacifiCorp improperly updated the post-2023 depreciation and reclamation costs for the Bridger Mine relative to the depreciation and reclamation costs settled in PacifiCorp's 2020 GRC by both updating Bridger Mine costs based on BCC Operating Budgets[506] and making an adjustment to Bridger's assumed operational life from 2037 to 2028,[507] even though that adjustment already occurred in the 2020 GRC.[508] AWEC claims that the Company also "recalibrated" how these updated costs would be recovered from customers by moving incremental depreciation and reclamation costs for 2024 and 2025 from the regulatory liability to NPC.[509]

291 AWEC argues that PacifiCorp's updates to incremental Bridger Mine depreciation and reclamation costs are both procedurally and substantively unsupported. AWEC believes this results in a $6,178,041 reduction to PacifiCorp's proposed NPC in this case, or $6,491,783 in revenue requirement.[510] AWEC states that it is agnostic as to whether post-2023 incremental depreciation and reclamation amounts agreed to in the 2020 GRC are recovered from customers through NPC or the regulatory liability for 2024 and 2025.[511]

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[504] *Id.* at 17, ¶ 31; *See* PacifiCorp OATT, Attachments H through H-2.

[505] *Id.* at 17, ¶ 31.

[506] AWEC Post-Hearing Brief at 17, ¶ 32; Mullins, Exh. BGM-7C.

[507] *Id.* at 17, ¶ 32; Cheung, Exh. SLC-8T at 27:10-11 and 28:8-9.

[508] *Id.* at 17, ¶ 32; Exh. RJM-14X at 12:3-11; Hearing Tr. at 133:15-134:3 (Witness Cheung agreeing that the Company's 2020 GRC testimony reflects an operational life of 2028 and conceding that she is unable to reconcile the Company's position in this case with its testimony in the 2020 GRC).

[509] AWEC Post-Hearing Brief at 17-18, ¶ 32; Cheung, Exh. SLC-8T at 29:20-30: Illustration A; Hearing Tr. at 136:1-138:18.

[510] *Id.* at 18, ¶ 32; Mullins, Exh. BGM-1CT at 34:17-35:2.

[511] *Id.* at 18, ¶ 32.

292 Finally, AWEC withdraws its recommendations with regard to the Washington Balancing Adjustment, market capacity limits, and the OTR, but reserves its right to raise these issues again in a future proceeding.[512]

293 ***Commission Determination.*** We address each of the disputed issues regarding forecast NPC in turn.

Rate Year vs. Calendar Year for NPC Forecasts

294 The Parties have differing views on the impact and effect of using the calendar year versus rate effective year (rate year) for calculating the forecast for Net Power Costs. According to the Company, using the calendar year approach aligns the NPC forecast with the forecast used for all other revenue requirement items, including the capital costs for generation and transmission resources used to derive the NPC forecast.[513]

295 AWEC disagrees with PacifiCorp's use of calendar year 2024 for the RY1 update. New rates will not go into effect until March 19, 2024, meaning that PacifiCorp's proposal creates a mismatch between the NPC forecast period and the rate-effective period. As was noted previously, AWEC stresses the importance of Rate Year 1 because the Jim Bridger Units 1 and 2 are scheduled to be out of service for a portion of 2024.[514]

296 Staff contends that since the suspension date in this matter is March 19, 2024, it is reasonable to assume that rates would go into effect on or around April 1, 2024, resulting in a rate year of April 1, 2024 to March 31, 2025.[515] Staff argues that the Company's current forecast NPC are not based on either a test year or the rate year, in violation of WAC 480-07-510(3)(c)(ii). Staff appears to agree with AWEC witness Mullins that this offset from the rate year used in forecast NPC are significant.[516]

[512] *Id.* at 29, ¶ 48.

[513] PacifiCorp Post-Hearing Brief at 4, ¶ 5; Cheung, Exh. SLC-8T at 68:19-21.

[514] AWEC Post-Hearing Brief at 12, ¶ 22. The Gateway South transmission line is projected to be online by October 2024 at a Washington-allocated cost of $163.2 million and Gateway West is projected to be online by December 2024 at a Washington-allocated cost of $22.8 million. Vail, Exh. No. RAV-1T at 13 (Table 1). The 400 MW Rock Creek I wind project is also projected to be online in December 2024. McGraw, Exh. No. RDM-1CT at 5:3-4.

[515] Staff Post-Hearing Brief at 5, ¶ 8; Staff adds that the Commission has in the past interpreted the suspension date to be the date that the Commission is required to issue an order, not the date by which new rates go into effect.

[516] *Id.* at 5, ¶ 8; Mullins, Exh. BGM-1CT at 20:4-12.

297 Staff asserts that adjusting the forecast to reflect the rate year as opposed to the calendar year resulted in a further $5,419,503 decrease in net power costs beyond what the Company accepted in rebuttal testimony. On the other hand, the Company argues that moving only the NPC forecast forward (using rate effective year) creates a mismatch with all other revenue requirement elements that will continue to be forecast on a calendar-year basis.[517] The Company further argues that this mismatch is contrary to well-established Commission precedent requiring that all "cost of service components—revenue, investment, expenses, and cost of capital—must be considered and evaluated at a similar point in time." [518] Moreover, PacifiCorp claims that shifting the NPC test period provides no overall customer benefits—the reduction in Rate Year 1 is entirely offset by the increase in Rate Year 2.[519] Using multiple test periods for NPC and all other revenue requirement items also complicates the MYRP plan process, which will rely on calendar year Commission Basis Reports.[520]

298 After considering all of the testimony and evidence, we find Staff's and AWEC's arguments persuasive on this issue.

299 The Commission is charged with determining rates that are "just, reasonable, or sufficient" and fixing those rates by order.[521] When a public service company is seeking an increase to "any rate [or] charge . . . the burden of proof to show that such increase is just and reasonable" is on that public service company seeking the increase.[522] Under commission rules, "variable power costs . . . may be calculated directly based either on test year normalized demand and energy load, or on future rate year demand and energy load factored back to test year load."[523]

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[517] PacifiCorp Post-Hearing Brief at 6, ¶ 9; Cheung, Exh. SLC-8T at 68:15-21.

[518] *Id.* at 6, ¶ 9 citing *WUTC v. PacifiCorp d/b/a Pacific Power & Light Co.*, Dockets UE-050684 and UE-050412, Order 04/03 at ¶ 194 (Apr. 17, 2006) (quoting *WUTC v. Avista Corp.*, Dockets UE-050482 and UG-050483, Order 05 at ¶ 111 (Dec. 21, 2005); *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705 (consolidated), Order 11 at ¶ 27 (Apr. 2, 2010) ("The matching principle requires that all factors affecting a proposed pro forma change be considered in determining the pro forma level of expense.").

[519] PacifiCorp Post-Hearing Brief at 6, ¶ 9; *See* Exh. RJM-8X at 1.

[520] *Id.* at 6, ¶ 9; Cheung, Exh. SLC-8T at 69:2-9.

[521] RCW 80.28.020.

[522] RCW 80.04.130(4).

[523] WAC 480-07-510(3)(c)(ii).

300 According to AWEC witness Mullins and Staff witness Wilson, most of the elevated costs will occur before the rate effective date (late March or early April).[524] Staff argues that this is not a situation where the difference between the forecasted period and the rate year results in minimal change to the forecast; this offset results in significant inaccuracy in forecasted power costs for Washington customers. Staff opines that this mismatch in rate year and the 12 months used to forecast NPC results in a scenario where the Company is more likely to over-collect revenues, and with the current PCAM structure, any refund to customers would not be 100 percent.[525] Staff believes this could result in a windfall to the Company.[526] Staff adds that the use of the calendar year as opposed to the rate year mis-states the benefits of wind facilities that are coming online during that time.[527]

301 The Company argues that forecasting NPC on the rate year as opposed to the calendar year may result in increased rates in RY2 because this timeframe sees the exit of coal in 2026.[528] In response, Staff accurately states that the goal of the forecast is not to minimize costs, but to accurately forecast NPC.[529] Staff adds that "forecasting NPC based on the rate year gives the most accurate forecast and limits the future need … for fluctuating rates as a result of a true-up."[530] We agree.

302 Company witness Cheung also argues that:

> "…it is less important that the forecasts period match the rate effective period, but more important that within the forecast period, costs and benefits are properly matched. It is also my understanding that the Commission addressed this issue in PacifiCorp's most recent PCORC filing, where there was a mismatch between the NPC baseline year and the rate year. The Commission determined that this

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[524] Staff Post-Hearing Brief at 5, ¶ 8; Mullins, Exh. BGM-1CT at 20:4-12; See also Wilson, Exh. JDW-24T at 4:2-5:3.

[525] *Id.* at 6, ¶ 8; JDW-24T at 6:2-6.

[526] *Id.* at 6, ¶ 8; JDW-24T at 6:2-6.

[527] *Id.* at 6, ¶ 8; Mullins, Exh. BGM-1CT at 35.

[528] Mitchell, Exh. No. RJM-3CT at 6:6-20-7:1-2.

[529] Staff Post-Hearing Brief at 6, ¶ 9.

[530] *Id.* at 6, ¶ 9.

mismatch did not cause any issues and rejected AWEC's arguments that this would be a departure from Commission practice."[531]

303 This comparison is not persuasive. In the PCORC cited by Cheung, the Commission was evaluating a non-precedential settlement. Moreover, it is clear from the paragraphs referenced by PacifiCorp that the Commission was considering whether the errors alleged by AWEC in that case "renders PacifiCorp's modeling unreliable or otherwise warrants rejecting the Settlement,"[532] not whether the use of the forecasted months was ideal.

304 When the Commission accepts a settlement, it does not signal that each individual term or aspect of that settlement is what the Commission would have decided had the case been fully contested. In addition, review of Order 06 indicates that the arguments made by AWEC that the Commission rejected were not primarily focused on a mismatch between the months used for the NPC forecast and the effective date.[533]

305 The Company further argues that the real issue with moving the NPC forecast to match the rate year is that the Company's revenue requirement for RY1 and RY2 is based on calendar years 2024 and 2025, and therefore moving the NPC forecast off calendar year 2024 would create a mismatch between costs and benefits.[534]

306 However, it must be pointed out that the Company chooses when to file its rate cases as well as the proposed test year, the proposed effective date for the initial rate year, and what provisional pro forma it proposes to include as part of a MYRP. In other words, the Company could have aligned its other revenue requirement elements with the actual rate years in the initial filing, but it did not. The misalignment between underlying capital investment assumptions and the NPC forecast is a result of the Company choosing to base its revenue requirement figures on calendar years 2024 and 2025 when the company filed in April 2023. The Company explains this choice by stating that it used the calendar year to "better facilitate subsequent filing requirements."[535] However, we believe the

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[531] Cheung, Exh. SLC-8T at 69:16-22.

[532] *WUTC v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 06, p. 36, ¶ 137 (March 29, 2022).

[533] *Docket UE-210402*, Order 06 at 7, ¶ 28 - 9, ¶ 36.

[534] Cheung, Exh. SLC-8T at 69:16-18.

[535] *Id.* at 69:3.

priority is for PacifiCorp to ensure an accurate NPC forecast and to comply with WAC 480-07-510(3)(c)(ii).

307 The Commission agrees with Staff's position that the best approach to achieving an accurate forecast is to base it on actual rate years. While PacifiCorp may be correct that using the rate effective year approach for forecasting may result in higher costs for Washington customers in RY2,"[536] the Commission's goal is to ensure that NPC are based on an accurate forecast, which is in line with its responsibility to determine that rates are "fair, just, reasonable, or sufficient."[537] Consequently, we conclude that Company shall use the rate effective year for forecasting NPC.

308 With regard to the specific level of forecasted NPC, we do not agree with Staff on its recommended NPC forecast. Although the Company was required to update certain inputs to its NPC forecast following Staff's motion to compel, the amount of time required to carry out certain NPC updates has made it difficult for other parties to fully vet and review the recommendations that Staff has made most recently in its post-hearing brief. After considering all of the evidence, we find that Staff's recommended NPC forecast is not supported by the testimony and evidence Staff has provided. Furthermore, PacifiCorp has not been afforded the opportunity to review and confirm the accuracy of the proposed NPC forecast Staff provided in its brief. We note that the Company already had accepted Staff's NPC forecast adjustments as proposed in Staff's response testimony, which lowered PacifiCorp's from $199 million to $190.2 million.[538] To that end, we also direct that these changes be reflected as an adjustment to a rate effective year NPC forecast, as we believe this would yield a more accurate result for the NPC forecast going forward. Therefore, for the reasons stated previously, herein, we accept PacifiCorp's proposed NPC forecast of $190.2 million subject to other Commission decisions regarding updates and correction in this Order and the requirement for the Company to update the NPC forecast to the rate effective period in its compliance filing.[539]

DA/RT Adjustment

309 The Company declares that its historical data demonstrates that it incurs system balancing costs that are not reflected in the Company's official forward price curves or modeled in

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[536] Cheung, Exh. SLC-8T at 69:3.

[537] RCW 80.28.020.

[538] Mitchell, RJM-3CT at 1:17-21, 23:22-24:1-4.

[539] PacifiCorp Post-Hearing Brief at 4, ¶ 6.

Aurora.[540] It adds that to incorporate these costs in the NPC forecast, it uses the DA/RT adjustment, which consists of two components. First, to better reflect the market prices available to the Company when it transacts in the real-time market, the Company models separate prices for forward system balancing sales and purchases.[541]

310 Second, the DA/RT adjustment reflects additional transaction volumes to account for the market's standard 25 megawatt (MW) block products, which are purchased or sold over various time horizons.[542] The volume component is necessary because Aurora assumes that the Company can transact in flexible increments that perfectly match system need, and it therefore models an unrealistically low volume of transactions.[543] The Commission first authorized the DA/RT adjustment in the Company's 2020 rate case,[544] and the Company applied the DA/RT adjustment in the 2021 PCORC.[545] PacifiCorp submits that the DA/RT adjustment has been approved for use in all the Company's jurisdictions.[546]

311 The Commission has reviewed PacifiCorp's limited evidence on the DA/RT adjustment, which was significantly updated in rebuttal testimony. However, we were unable to fully comprehend the means and methodology the Company used in calculating the rebuttal update. Mitchell argues that the DA/RT adjustment set forth in the Company's direct testimony improperly reduced total-Company NPC by $102 million, reflecting unrealistic arbitrage revenue.[547] The Company submits that it corrected this alleged error on rebuttal by updating the "volume component" of the DA/RT adjustment.[548] Yet the workpapers provided to the parties showed different calculations than the workpapers provided earlier with initial testimony.[549] We remain concerned that this update to the volume component was only proposed in rebuttal, was insufficiently explained, and was not subject to appropriate vetting by the non-Company parties. "[W]hen resolving disputes about which

[540] *Id.* at 21, ¶ 42; Mitchell, Exh. RJM-1CT at 27:15-16.

[541] *Id.* at 21, ¶ 42; Exh. RJM-13X at 6:4-8.

[542] *Id.* at 21, ¶ 42; Mitchell, Exh. RJM-3CT at 18:18-23.

[543] *Id.* at 22, ¶ 42; Mitchell, Exh. RJM-3CT at 19:3-8.

[544] *Id.* at 22, ¶ 43; Exh. RJM-14X at 4:9-12.

[545] *Id.* at 22, ¶ 43; Mitchell, TR 103:20-104:16.

[546] *Id.* at 22, ¶ 43.

[547] Mitchell, Exh. RJM-3CT at 19:17-23.

[548] *E.g.*, Mitchell, TR 107:17-108:10.

[549] *Id.* 122:2-23.

factors to include in a power cost update shortly before the final order or in the compliance filing, the Commission has made careful determinations based on the facts of each case."[550] In this case, because of this information asymmetry between the Company, the other parties, and the Commission, we have no choice but to withdraw from consideration of this issue in the interests of due process. We therefore reject each of the corrections or updates that the Company proposed to its forecast NPC on rebuttal.[551] We reserve the right to revisit this issue in the near future once we have obtained the necessary evidence to analyze and give due consideration to the means and methodology used to calculate the update to the DA/RT adjustment.

Bridger Reclamation and Depreciation Expenses

312 According to the Company, reclamation and depreciation costs required for the BCC mine historically were included as a component of the fuel cost of coal provided by the mine for the Bridger plant.[552] The level of reclamation costs included in the fuel cost was based on the expected life of the BCC mine as determined on a system-wide basis. In the Company's 2020 GRC, the Commission approved a settlement that called for accelerated depreciation of coal-fired resources and the BCC mine to 2023.[553] In Order 09/07/12, the Commission noted that the "stipulated revenue requirement…includes recovery of additional, incremental reclamation and depreciation over 10 years (2021 through 2030) in the amount of $11,815,290 per year (total company), for Bridger Mine reclamation and depreciation costs beyond 2023…Washington's share of these costs will be recorded in a balancing account that will be part of rate base."[554]

313 The Company declares that the Commission-approved balancing account tracks the recovery of Washington's share of additional, incremental reclamation and depreciation for the BCC mine that Washington would have paid through fuel costs over the life of the mine but would no longer pay once the mine was removed from Washington rates in

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[550] *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-210402, Final Order 06 ¶ 127 (March 29, 2022).

[551] *See* PacifiCorp Post-Hearing Brief at 3, ¶ 5 (summarizing rebuttal testimony corrections and adjustments).

[552] *Id.* at 22, ¶ 43.

[553] *WUTC v. PacifiCorp, dba Pacific Power & Light Co.*, Docket UE-191024 *et al.*, Order 09/07/12 at ¶¶ 110-111 (Dec. 14, 2020).

[554] *Id.*; Settlement (UE-191024 *et. al.*) at 11, ¶ 27.

2023.[555] In further detailing the intent of the language in Order 09/07/12, PacifiCorp asserts the balancing account reflects recovery of the estimated incremental BCC mine reclamation and depreciation costs based on an assumed 2023 closure date and costs were to be recovered over 10 years, from 2021 through 2030.[556] The Company adds that together with the reclamation costs that would be recovered through fuel costs from 2021 to 2023, the balancing account was designed to capture 100 percent of the estimated reclamation costs that would be incurred over the life of the BCC mine.[557] The Company asserts the intent of the balancing account is to ensure that Washington customers pay their share of reclamation costs, which means that any over- or under-recovery will be trued up at the end of the account life.[558]

314 In this matter, the Company sought to extend the life of coal-fired resources and the BCC mine from 2023 through 2025.[559] As a result, the Company contends that it recalculated the reclamation costs that would be recovered through fuel costs and adjusted the amounts that would be recovered through the balancing account so that together the fuel costs and balancing account would recover 100 percent of the estimated reclamation costs allocated to Washington, subject to a true-up of the balancing account.[560]

315 In response, AWEC recommends removing reclamation costs from the cost of fuel, claiming the balancing account approved in the 2020 rate case was designed to capture all the BCC reclamation and depreciation costs and including depreciation and reclamation costs in fuel costs through 2025 results in double recovery.[561] To be more specific, it is AWEC's position that PacifiCorp's failure to make an adjustment to exclude the depreciation and reclamation costs beyond 2023, which are already being recovered as part of the regulatory liability, results in a double-payment of costs by customers.[562]

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[555] PacifiCorp Post-Hearing Brief at 24, ¶ 47; Cheung, Exh. SLC-8T at 27:13-19.

[556] PacifiCorp Post-Hearing Brief at 24, ¶ 47; Cheung, Exh. SLC-8T at 27:19-21.

[557] *Id.* at 24-25, ¶ 47.

[558] *Id.* at 25, ¶ 47; Cheung, Exh. SLC-8T at 30:3-5.

[559] *Id.* at 25, ¶ 48; Cheung, Exh. SLC-8T at 28:4-5.

[560] *Id.* at 25, ¶ 48; Cheung, Exh. SLC-8T at 28:20-29:8; Cheung, TR 138:9-18.

[561] Mullins, Exh. BGM-1CT at 33:17-34:2.

[562] AWEC Post-Hearing Brief at 20, ¶ 36; Mullins, Exh. BGM-1CT at 32:18-33:13.

AWEC contends that an adjustment to a 2028 operational life was assumed in the earlier case when depreciation and reclamation costs were calculated. [563]

316 Regarding PacifiCorp's updated Bridger Mine depreciation and reclamation costs, AWEC asserts that no PacifiCorp witness in this proceeding addressed the details or prudence of costs included in NPC or set to be recovered via regulatory liability.[564] AWEC maintains that neither witness Cheung nor witness Mitchell provided adequate testimony on the updated Bridger Mine depreciation and reclamation costs.[565] AWEC insists that even if the Commission were inclined to agree with PacifiCorp that the 2020 GRC Stipulation does not preclude updating Bridger Mine depreciation and reclamation costs, there simply is not an adequate evidentiary basis for the Commission to conclude that PacifiCorp's updated costs are prudent and will result in rates that are fair, just, reasonable and sufficient.[566]

317 Moreover, AWEC does not believe that PacifiCorp's updates result in an economic benefit to customers. AWEC points out that witness Cheung testifies that amounts recovered through the balancing account have gone down by approximately $500,000 per year, equaling about $2.0 million per year instead of $2.5 million per year.[567] However, AWEC posits that amounts collected through the balancing account do not provide the complete picture of total decommissioning and reclamation costs for the Bridger Mine.[568] AWEC further argues that despite PacifiCorp's obligation to "track customers' contribution to BCC costs over the period of the rate plan in a manner that allows Parties to review these contributions in PacifiCorp's next general rate case," no such information was provided in this case.[569]

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[563] *Id.* at 20-21, ¶ 36; Exh. RJM-14X at 12:5-10 (PacifiCorp Witness Wilding stating that "The 2014 Rate Case assumed the BCC surface mine would continue to produce coal through 2037 and the underground mine would produce coal through 2023. The test period projects surface coal deliveries cease in 2028 and underground mine production terminates in 2021. Early closure of mining operations increased final reclamation and contribution amounts and increased depreciation expense expressed on a cost per ton basis.").

[564] AWEC Post-Hearing Brief at 21, ¶ 37.

[565] *Id.* at 21-22, ¶ 37.

[566] *Id.* at 22, ¶ 37.

[567] *Id.* at 22, ¶ 38.

[568] *Id.* at 22, ¶ 38.

[569] *Id.* at 22, ¶ 38; Cheung, Exh. SLC-20X at 11.

318 Finally, AWEC argues that additional information would be needed to ensure that PacifiCorp's calculation of uncredited balancing account amounts is correct. AWEC takes issue with Cheung's explanation for the Company's $250,000 correction to the calculation of the Bridger Mine reclamation and depreciation adjustment. Witness Cheung testified that the Company's calculation "neglected to take into account the amounts that had already been collecting in the balancing account"[570] and later clarified that "in the initial filing, the company had neglected to include that balance as an offset altogether."[571]

319 According to AWEC, Witness Cheung also testified that in years 2021, 2022 and 2023 – the years in which the balancing account has been in place – the Company "accumulated an annual amount of approximately two and a half million dollars a year."[572] In effect, it appears that customers have been credited with $750,000 over a period that rates were set to collect $7.5 million. AWEC declares that PacifiCorp provides no detail as to this discrepancy, further calling into question whether the Company's proposed incremental Bridger Mine depreciation and reclamation costs sought in this case are accurate.[573]

320 Upon review of the record, testimony and briefs on this issue, we agree with the Company on its handling of reclamation and depreciation, and the update to these expenses. To start, we do not agree with AWEC that the update created double recovery for ratepayers regarding these expenses. The purpose of the balancing account is to true-up reclamation and depreciation expenses Washington ratepayers pay for the costs incurred for actual operations.[574] However, in its testimony the Company offered to provide an updated calculation of annual reclamation cost amounts reflected in Adjustment 6.4 – Decommissioning and Other Plant Closure Costs Adjustment when a compliance filing for this MYRP is made, should we desire a more accurate estimate of incremental reclamation and depreciation costs. These reclamation and depreciation costs are to be reflected in amounts recovered through the regulatory liability that is properly synchronized with fuel cost projects in NPC.[575] In order to continue to keep a firm grasp

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[570] AWEC Post-Hearing Brief at 23, ¶ 39; Hearing Tr. at 142:4-7.

[571] *Id.* at 23, ¶ 39; Hearing Tr. at 142:15-17.

[572] *Id.* at 23, ¶ 39; Hearing Tr. at 137:6-8; see also Hearing Tr. at 138:6-8.

[573] *Id.* at 23, ¶ 39.

[574] Cheung, Exh. SLC-8T at 30:3-5.

[575] *Id.* at 31:4-10.

on these calculations that will affect customers and their rates, we request that the Company provide this information with its compliance filing for the MYRP.

321 The Company raises a compelling argument that the settlement for the 2020 GRC does not prohibit PacifiCorp from recalculating the reclamation and depreciation costs in this case based on extending the life of the BCC mine.[576] In addition, we note that Staff states, "If the Commission approves the [Company's] proposal to revise the exit date for Jim Bridger coal units from 2023 to 2025, then PacifiCorp's method of calculating coal costs for the Jim Bridger units' contribution to NPC appears to be consistent with the intent of the [2020 rate case] settlement."[577]

322 However, Staff states that verification of PacifiCorp's recalibrated incremental depreciation and reclamation costs is beyond the scope of their testimony.[578] Staff's support of the Company's recalculation seems tentative and conditioned on Commission approval of the Jim Bridger Coal units exit date moving from 2023 to 2025. The Company goes on to add that the fuel costs here include recovery of reclamation and depreciation based on the system closure date for the BCC mine, which will be recovered from Washington customers through 2025.[579] PacifiCorp also claims that the remaining difference between what would have been recovered through fuel costs based on the life of the mine and the amount recovered through the balancing account since 2021 will not be recovered through the balancing account.[580] We agree with the Company's argument that the settlement for the 2020 GRC does not prohibit PacifiCorp from recalculating the reclamation and depreciation costs in this case based on extending the life of the BCC mine. We will allow PacifiCorp to adjust the exit date of the Jim Bridger units from 2023 to 2025. Accordingly, we modify paragraphs 113, 114 and 174 of Final Order 09/07/12 in Docket UE-191024 *et al.* to reflect the exit date is now December 31, 2025.[581] We remind the Company that Washington law requires PacifiCorp to eliminate coal-fired resources

[576] PacifiCorp Post-Hearing Brief at 26, ¶ 51; Cheung, TR. 137:6-20; Cheung, Exh. SLC-8T at 30 (Illustration A).

[577] Wilson, Exh. JDW-24T at 11:10-14.

[578] *Id.* at 11:10-14.

[579] PacifiCorp Post-Hearing Brief at 26, ¶ 51; Cheung, TR. 144:22-145:16.

[580] *Id.* at 26, ¶ 51; Cheung, TR. 137:6-20; Cheung, Exh. SLC-8T at 30 (Illustration A).

[581] *WUTC v. PacifiCorp, dba Pacific Power & Light Co.*, Docket UE-191024 *et al.*, Order 09/07/12 at ¶¶ 113-114, 174 (Dec. 14, 2020).

from its allocation of electricity by no later than December 31, 2025.[582] Lastly, we will continue to monitor this adjustment for any negative impact absorbed by ratepayers in this regard.

323 We now turn to the argument of cost recovery through the balancing account. AWEC takes issue with witness Cheung's explanation for the Company's $250,000 correction to the calculation of the Bridger Mine reclamation and depreciation adjustment. AWEC was not satisfied with the answers PacifiCorp provided through its witnesses to date, regarding the approximately $2.5 million collected annually over a three-year period. The point of AWEC's argument is that to date it appears that customers have only been credited with $750,000.[583]

324 With regard to the $250,000 correction, Cheung explains in rebuttal testimony that "analyzing witness Mullins' proposal to remove fuel costs, and further examining the calculations reflected in the Company's Bridger Mine incremental reclamation and depreciation expense adjustment, the Company observed an oversight, where amounts collected since the 2020 GRC were not considered in setting the required level of recovery going forward."[584] Witness Cheung adds that "the Company has reduced the incremental reclamation and depreciation expenses by the cumulative amounts already collected since the approval of the original regulatory liability in 2021. This correction reduces annual reclamation costs that still need to be collected through 2030 by approximately $250 thousand."[585] Witness Cheung then provides document illustrating the correction and how it reduces reclamation costs.[586] We find Cheung's testimony and clarifications on this point persuasive.

325 Turning now to the issue of the approximately $2.5 million collected annually over a three-year period, PacifiCorp explains that cost recovery through the balancing account has decreased as a result of the Company's update in this case.[587] The Company notes

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[582] *Id.* at ¶ 113 (referencing RCW 19.405.030 of the Washington Clean Energy Transformation Act (CETA)).

[583] AWEC Post-Hearing Brief at 23, ¶ 39.

[584] Cheung, Exh. SLC-8T at 29:11-15.

[585] *Id.* at 29:15-19.

[586] *Id.* at 29:22-24-30, Illustration A – Bridger Mine Reclamation and Unrecovered Investment Costs.

[587] PacifiCorp Post-Hearing Brief at 26, ¶ 52.

that the 2020 rate case settlement called for recovery of approximately $2.5 million per year for 10 years, for a total of approximately $25 million. As of 2023, the Company alleges it has recovered roughly $7.5 million. Going forward, the Company proposes recovering approximately $2 million per year through the balancing account for an additional seven years, for a total of approximately $14 million.[588] Together with the $7.5 million already recovered, the Company projects total recovery of approximately $21.5 million in this case, as compared to $25 million in the 2020 case.[589]

326 In sum, the Company's proposed adjustments for reclamation and depreciation are acceptable to the Commission. We agree with the proposed adjustment for the exit date for the Jim Bridger units. We also approve the Company's depreciation and reclamation adjustments, subject to the condition that these adjustments comply and coincide with the rate effective year NPC forecast methodology, which is also directed in this order.

Net Power Cost – Wheeling Revenue

327 According to AWEC, PacifiCorp should update expected increases in wheeling revenues it will receive when the new Gateway transmission lines go into service.[590]

328 In response, PacifiCorp asserts that "for the first time at hearing, AWEC proposed an entirely new and unsupported adjustment to NPC to impute wheeling revenue resulting from the new Gateway South transmission line."[591] It is the Company's position that AWEC's proposed adjustment is procedurally improper,[592] and also believes that it is entirely without evidentiary support.[593] Specifically, the Company argues "not only is there no evidence in the record supporting such an adjustment, wheeling revenue is included in base rates, not NPC. Therefore, imputing additional revenue into the NPC forecast is improper."[594] Moreover, PacifiCorp contends "the NPC forecast for both rate years one and two includes the full NPC benefits of new transmission investments, including Gateway South. And base rates for Rate Year 2 include a pro forma adjustment

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[588] PacifiCorp Post-Hearing Brief at 26, ¶ 52.

[589] *Id.* at 26, ¶ 52; Cheung, TR. 139:15-140:6.

[590] AWEC Post-Hearing Brief at 17, ¶ 31.

[591] PacifiCorp Post-Hearing Brief at 27, ¶ 54; Pepple, TR. 89:20-24.

[592] *Id.* at 4, ¶ 5.

[593] *Id.* at 4, ¶ 5.

[594] *Id.* at 27, ¶ 54.

to increase wheeling revenues, although the pro forma adjustment is not tied to any specific transmission investment."[595]

329 After reviewing the arguments of both parties, we agree with the Company on this issue. The first time AWEC raised this particular adjustment, regarding wheeling revenue resulting from the new Gateway South transmission line, was during the hearing phase of this proceeding.[596] We see this point raised again in the Post-Hearing Brief.[597] Introducing this adjustment at a later phase of this proceeding did not provide parties adequate time to duly consider and respond to this issue. Inclusion of an important element like this should have been raised in response testimony where the Company and other parties could consider and address the reasonableness of this adjustment in rebuttal and cross-answering testimony. Therefore, we conclude that it was procedurally improper to raise this issue and will not address the merits of this issue in this proceeding.

B. PCAM

330 In Order 08 of UE-140762, the Commission describes the Power Cost Adjustment Mechanism (PCAM) as a measure that will protect the Company from extra-normal power cost variability while giving Pacific Power adequate incentive to manage carefully its full power portfolio.[598] Further, the Commission intended for a PCAM "that is designed to take into account the cost performance of the Company's entire resource portfolio and market purchase activities, that appropriately balances risks between the Company and its customers, and that provides Pacific Power with a continuing incentive to focus on managing its power resources rather than arguing repeatedly that it is beyond its ability to do so."[599]

1. PacifiCorp Direct Testimony

331 The Company proposes to eliminate the deadband and asymmetrical sharing bands, subjecting 100 percent of power cost variances to a potential refund or surcharge.[600]

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[595] PacifiCorp Post-Hearing Brief at 27, ¶ 54.

[596] Pepple, TR. 89:20-24.

[597] AWEC Post-Hearing Brief at 17, ¶ 31; *See* PacifiCorp OATT, Attachments H through H-2.

[598] *WUTC v. PacifiCorp*, Docket No. UE-140762, p. ii.

[599] *Id.* p. 57, ¶ 135.

[600] McVee, Exh. MDM-1T at 34:15-17. For the first $4M of variance between Forecast NPC and Actual NPC settled through the PCAM, the variance is absorbed entirely by PAC. For variance of

Company witness Jack Painter testifies that the current PCAM structure does not achieve the goals of equitably sharing risk between the customers and the Company, or properly incentivize the utility to effectively manage or reduce power costs.[601] Painter contends both goals cannot be achieved because the underlying NPC forecasting is less accurate and will continue to lose accuracy.[602] Painter argues the Company's ability to manage and reduce NPC will be further diminished when it joins the Extended Day-Ahead Market (EDAM) as economic decisions are controlled by the California Independent System Operator (CAISO) and therefore the majority of the Company's NPC will be driven as low as the EDAM can achieve.[603]

332 Further, the Company believes a changing resource mix in the Western Interconnection with increasing renewables adds to forecasting challenges due to weather dependencies. Witness Painter also contends that the combination of increased extreme/abnormal weather events, natural gas price volatility caused by the war in Ukraine, and changing environmental compliance requirements are all leading to increased uncertainty in forecasting NPC.[604]

333 For these reasons, Painter proposes to eliminate the PCAM deadband and asymmetrical sharing bands as the incentives are no longer aligned with the Company's ability to control the inputs; "[i]n other words, when the economic control of NPC is simultaneously taken out of the Company's hands and guaranteed, by an independent third-party, to be as low as modern optimization techniques can achieve, there are very few cost controls left for the PCAM deadband and asymmetrical sharing band to incentivize."[605]

334 Painter further explains that between 2016 and 2021, "the total loss to Washington customers due to the deadband and asymmetrical sharing bands is $27.6 million, while

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Forecast NPC and Actual NPC between $4M and $10M, the adjustment is shared asymmetrically. For customer refunds, customers receive 75 percent of the variance. For customer surcharges, customers are charged for 50 percent of the variance. This excludes the $4M of deadband. Additional variance exceeding $10M is shared 90/10 percent between the customer and the company.

[601] Painter, Exh. JP-1T at 4:12-15.

[602] *Id.* at 5:1-15.

[603] *Id.* at 5:16-6:5.

[604] *Id.* at 15:9-18:2.

[605] *Id.* at 29:12-16.

the loss to the Company is $10.2 million."[606] Painter recognizes that in Avista Corporation's 2017 GRC in Dockets UE-170485 and UG-170486, Staff argued that Avista also had a recent history of over-forecasting power costs and took advantage of the deadband to receive a windfall at customers' expense. The Commission found that Avista had consistently unbalanced NPC forecasts in the company's favor. Therefore, Painter contends this reinforces the rationale to remove the deadband and asymmetrical sharing bands.[607]

2. *Staff Response Testimony*

335 Staff agrees both with the purpose of the PCAM and that the current structure can lead to unbalanced outcomes.[608] However, Staff witness McGuire testifies that eliminating the entire risk-sharing mechanism is inconsistent with Commission policy.[609] McGuire testifies that the Commission recently affirmed the continued appropriateness of risk sharing between ratepayers and utilities in circumstances where future costs and cost variances are uncertain, citing the recent Commission order to PSE to develop a risk sharing mechanism for Climate Commitment Act (CCA) costs.[610] Additionally, McGuire notes that in the Company's most recent PCORC, the Commission shared AWEC's concern that PacifiCorp has not appropriately managed risk for Washington customers, and ordered PacifiCorp to address the prudency of the Company's risk management practices in their next PCAM filing.[611]

336 Further, Staff witness Wilson argues the elimination of the deadband and asymmetrical sharing bands without any replacement would pass all risk on to the Company's customers while it still has control over a significant portion of NPC.[612] Wilson is not convinced by PacifiCorp's argument that it has no control over power cost variances due to forecasting difficulties and joining the EDAM, and that therefore the current PCAM

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[606] *Id.* at 7:14-16.

[607] *Id.* at 6:7-7:10

[608] Wilson, Exh. JDW-1CT at 20:4-8, 22:3.

[609] McGuire, Exh. CRM-1T at 19:8-11.

[610] *Id.* at 58:11-21 (citing *WUTC v. Puget Sound Energy*, Docket UG-230470, Order 01, 6, ¶ 22 (August 3, 2023)).

[611] *Id.* at 59:7-15.

[612] Wilson, Exh. JDW-1CT at 35:18-36:5.

structure cannot incentivize the Company to control costs.[613] Wilson explains that "the Commission has established that one of the key purposes of power cost sharing mechanisms is to ensure an equitable sharing of variance risk between ratepayers and shareholders,"[614] and that the Company does not explain why equitable risk sharing should be abandoned.[615]

337 Staff provides additional testimony countering the Company's portrayal of the impacts of the EDAM, renewable generation, and power market prices. Wilson testifies that under simplistic assumptions, PacifiCorp's decision to join EDAM will result in a slight majority of NPC being attributed to EDAM.[616] The Company would still have control over several other NPC drivers, summarized in Table 9 below. Wilson concludes, "[w]hile Company witness Painter believes that there are 'very few cost controls left for the PCAM deadband and asymmetrical sharing band to incentivize,' he understates PacifiCorp's remaining responsibilities."[617]

Table 9: Drivers of NPC Variance, Considering Benefits of EDAM Participation[618]

Outside PacifiCorp's Control	**Within PacifiCorp's Control**	
Load Renewable resource generation Market spot power prices Unit Dispatch Wheeling rates Qualifying facility contracts Market fuel prices	**Subject to Short-Term Variation** Plant operating practices O&M cost Hedging cost Fuel procurement practices Bi-lateral transactions outside EDAM	**Not Subject to Short-Term Variation** Long-term PPAs Long-term fuel supply agreements Resource planning

[613] McGuire, Exh. CRM-1T at 56:20-57:6.

[614] *Id.* at 57:8-10.

[615] *Id.* at 57:8-10.

[616] Wilson, Exh. JDW-1CT at 23:10-12.

[617] *Id.* at 24:14-25:2.

[618] Wilson, Exh. JDW-1CT at 24:9, Table 3.

	Dispatch of demand-side resources	

338 Wilson anticipates that increased renewable deployment will not have as large of an effect as described by Company witness Painter, but generally agrees that it will tend to result in underestimated NPC forecasts. The result of this underestimation would make customers more likely to be affected by surcharges than by sur-credits.[619] Staff recommends that the Company "could revise the NPC model to incorporate an adjustment to Forecast NPC that makes surcharges and sur-credits more balanced from year to year."[620]

339 Staff recommends maintaining a risk sharing component within the Company's PCAM by eliminating the five-tier structure and replacing it with a single 90/10 risk sharing component. [621] Wilson points to similarities with several other Company regulated jurisdictions to support this recommendation.

340 Finally, Staff recommends the threshold be changed from $17 million to $7 million, and that only 50 percent of the deferral balance be recovered the following year, resulting in more frequent but smaller adjustments and an overall rate that is more stable.[622]

3. *Public Counsel Response Testimony*

341 Public Counsel maintains that the Commission should reject the Company's proposal to eliminate the deadband and asymmetric sharing bands from the PCAM.[623] Public Counsel witness Earle notes that the PCAM mechanism was established in a settlement for PAC's 2014 GRC, where it was explicitly ordered to include deadband and asymmetric sharing bands.[624] Earle rejects the argument that NPC forecasting difficulties and EDAM participation are sufficient justification for removing these bands.[625]

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[619] *Id.* at 27:3-7.

[620] *Id.* at 28:18-19.

[621] *Id.* at 36:14-16.

[622] Wilson, Exh. JDW-1CT at 37:16-38:4.

[623] Earle, Exh. RLE-1CT at 2:6-9.

[624] *Id.* at 3:1-14.

[625] *Id.* at 3:21-25.

342 Earle explains that while a majority of NPC will be determined in an organized market, the Company still has areas where it can optimize performance and costs, such as fuel costs and hydropower dispatch.[626] Earle also notes that PacifiCorp has not announced savings in staffing costs through the reduction of trading personnel and other staff that work to optimize NPC.[627] Public Counsel also contends that the Company may still optimize its resources in terms of scheduling maintenance outages, the proper maintenance of equipment, the minimization of forced outages, and the improvement of heat rates at thermal plants.[628]

343 Further, Earle asserts that it is part of a utility's job to deal with the volatility of fuel prices and other NPC inputs, noting unremarkable levels of natural gas price volatility in recent years.[629] Finally, Earle states that abandoning incentives for controlling power costs burdens the Commission with a higher level of review to assess for prudency.[630]

4. AWEC Response Testimony

344 AWEC opposes the Company's proposal to change the PCAM. Mullins testifies that the PCAM is functioning as intended and that the Commission previously rejected the arguments relied upon in this proceeding by the Company. Therefore, Mullins recommends the Commission should reject the proposal to eliminate the deadband and asymmetric sharing bands.[631] Mullins also notes that the Commission rejected dollar-for-dollar recovery of NPC in the 2006/2007 and 2012 GRCs, leading to a settlement in the 2014 GRC that required the Company to implement deadband and asymmetric sharing bands in the PCAM.[632]

345 Regarding market forecast accuracy, Mullins testifies that PacifiCorp's market price forecasts are based on official forward price curves, which represent the actual cost of purchasing power in the forecast period, and adds that the forward markets also typically

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[626] *Id.* at 5:1-16.

[627] *Id.* at 5:18-6:3.

[628] *Id.* at 6:4-7.

[629] Earle, Exh. RLE-1CT at 6:17-7:8.

[630] *Id.* at 8:10-9:4.

[631] Mullins, Exh. BGM-1CT at 64:12-15.

[632] *Id.* at 65:6-67:15.

include large premiums to account for expected price volatility.[633] Mullins also notes that organized markets are expected to reduce the volatility of NPC, and that trading in a market still allows PacifiCorp to maintain capacity for planning and trading, which they will control.[634]

5. Sierra Club Response Testimony

346 Sierra Club recommends the Commission retain the existing deadband and asymmetric sharing bands.[635] First, Sierra Club witness Ronald J. Binz argues the $17 million threshold is not sufficient on its own, since it does not convey incentives like deadband and asymmetric sharing bands.[636] The Company disregards the role of natural gas prices as a factor in NPC, which Binz characterizes as the main driver of NPC fluctuation.[637] Binz asserts that fuel cost sharing is a valuable element of the PCAM that corrects the poor incentives of traditional regulation and levels the playing field between fossil fuel and renewable generation, while elimination of the deadband and asymmetric sharing bands will completely insulate the Company from the risks of fossil fuel resources.[638]

347 While Binz agrees with Company witness Painter that the western grid is becoming more complicated and that weather patterns are increasing the difficulty to predict wind and solar availability in the short term, Binz provides three factors that negate these drawbacks: (1) wind and solar generation benefit from geographic diversity, which decreases the correlation among generators; (2) wind generation is typically regular over longer time horizons, which Painter acknowledges; and (3) natural gas price volatility is much greater than that of wind and solar.[639] However, Binz believes the biggest issue with renewable generation for the Company is AURORA's inability to model intermittent renewables, despite their net-positive economic impact on the utility industry.[640]

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[633] *Id.* at 69:5-17.

[634] *Id.* at 71:4-10.

[635] Binz, Exh. RJB-1T at 26:6-10.

[636] *Id.* at 26:14-21.

[637] *Id.* at 14:9-12.

[638] *Id.* at 5:14-27.

[639] *Id.* at 15:4-16:13.

[640] *Id.* at 17:25-18:2.

348 Further, Sierra Club argues that it is the utility's responsibility to insulate against gas prices and that the automated recovery of fuel costs removes the incentives for PacifiCorp to stay efficient and protected against them.[641] Therefore, Binz contends utilities should share the risk of higher prices due to resource choices,[642] and that there is a risk of "moral hazard" if risk sharing is eliminated as the utility can act without fear of the economic consequences of their actions.[643]

349 Finally, Binz notes that EDAM will not significantly change the dispatch of Company's resources, and that the generation mix, already determined through the IRP process and in the Company's control, is a greater factor in NPC than daily dispatch patterns.[644] Binz also states that EDAM does not prevent PacifiCorp from minimizing NPC that is within its control through management choices. "There is simply no reason to stop with the cost improvements resulting from EDAM: others are available to PacifiCorp, and they should be incentivized."[645]

6. Rebuttal Testimony

350 On rebuttal, the Company maintains that a complete elimination of the asymmetrical sharing bands ensures the fairest outcome for customers. However, in the alternative, Painter finds Staff's single 90/10 sharing band is reasonable.[646] If the Commission orders Staff's sharing band, the Company disagrees with Staff's timing for implementation and encourages the Commission to effectuate the change immediately rather than waiting for the Company to join the EDAM.[647] Painter argues that evidence currently exists of NPC forecasting inaccuracies, referencing PSE and Avista filings, [648] and citing to Staff's own witness regarding the failure of the current structure to equitably share risk.[649]

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[641] *Id.* at 21:6-22:2.

[642] *Id.* at 22:3-11.

[643] *Id.* at 22:13-16.

[644] *Id.* at 24:8-22.

[645] *Id.* at 25:20-26:4.

[646] Painter, Exh. JP-2T at 2:17-3:4.

[647] *Id.* at 3:5-12.

[648] *Id.* at 4:4-16.

[649] *Id.* at 3:13-14.

351 PacifiCorp does not agree that the Company is violating the 2014 GRC settlement by proposing PCAM structural changes in this proceeding.[650] The "stipulation explicitly stated, '[b]y executing this Stipulation, no party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.'"[651]

352 Additionally, the Company contests AWEC's argument claiming no substantial changes exist to warrant modifications to the PCAM, citing increased renewable deployment, EIM participation, and the upcoming participation in EDAM.[652] PacifiCorp also rejects AWEC's argument regarding price forecasts and forward price curves as an oversimplification, noting that the deadband and sharing bands prevent customers from receiving full credits when NPC are overestimated.[653]

353 While the Company agrees with Sierra Club that natural gas prices have an impact on the difficulty of forecasting NPC, Painter notes that the proper functioning of the deadband and sharing bands in a PCAM requires a well-forecasted baseline, and that the source of the variance is irrelevant.[654] Additionally, Painter argues no "moral hazard" exists, as suggested by Sierra Club, as prudency determinations for every aspect of power costs exist in the rate making processes.[655]

354 Responding to Public Counsel's argument that the PCAM is a substitute for prudency determinations and thereby elimination of the PCAM increases workload burden, the Company counters that prudency review currently exists in PCAM proceedings and would not change with adjustments to the PCAM structure proposed in this proceeding. Painter counters that a disallowance based on prudency was realized in the 2018 PCAM proceeding.[656]

355 Additionally, in responding to Public Counsel's claim that maintaining the PCAM structure is necessary to maintain optimization of hydropower or maintenance schedules

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650 *Id.* at 7:11-14.

651 *Id.* at 7:18-20.

652 *Id.* at 17:3-11.

653 *Id.* at 17:12-21.

654 *Id.* at 9:16-10:1.

655 *Id.* at 10:14-11:8.

656 *Id.* at 13:17-14:14

post EDAM participation, Painter contends the Company utilizes resources in the most cost-efficient manner and any party may challenge the optimization or maintenance schedules through the annual PCAM filing.[657] The Company also disagrees with Public Counsel's argument that because PacifiCorp does not optimize specifically for Washington customers the PCAM should not be adjusted, since the PCAM structure does not impact PacifiCorp's six-state optimization methodology.[658]

356 Finally, PacifiCorp opposes Public Counsel's argument to maintain the deadband and sharing bands due to information asymmetry. Painter contends that the NARUC publication used by Public Counsel to make their point describes information asymmetry in forecasted costs, and that the information in assessing Actual NPC involves a backwards-looking review.[659]

357 Painter testifies that retaining the deadband and asymmetric sharing bands could create improper incentives for parties to forecast inaccurately. Painter adds that "[a] more streamlined PCAM structure would incentivize parties to prioritize a more accurate forecast and rate stability, which ultimately serves the best interests of customers."[660]

Cross-Answering Testimony

1. *Staff's Cross Answering Testimony*

358 Staff provides cross-answering testimony to stress agreement with two arguments made by AWEC in their response testimony. First, Wilson agrees that participation in organized markets will require the same, if not more, expertise, planning, and attention which remains within the control of the Company to minimize NPC.[661] Second, Wilson agrees that forecast NPC are more likely to exceed actual NPC, which is a reversal of Staff's previous position, with the effect of the current PCAM structure being biased towards customer losses.[662]

2. *Public Counsel's Cross Answering Testimony*

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[657] *Id.* at 12:5-21.

[658] *Id.* at 13:1-15.

[659] Painter, Exh. JP-2T at 14:17-15:4.

[660] *Id.* at 18:9-14.

[661] Wilson, Exh. JDW-24T at 16:7-10.

[662] *Id.* at 17:8-18.

359 Public Counsel disagrees with Staff's characterization of the current PCAM structure as "unnecessarily complicated," comparing it favorably to the use of AURORA and the calculation of EIM benefits when forecasting NPC.[663] Public Counsel notes that the Commission rejected a 90/10 risk sharing mechanism in Docket UE-050684, as Staff proposes in this proceeding, because it did not adequately balance risk between shareholders and ratepayers without a deadband.[664] Further, addressing Staff's rationale for eliminating the deadband, Earle provides reference to the Company's 2014 general rate case in which the Commission found arguments regarding the magnitude of a deadband acceptable but not its elimination.[665]

3. *AWEC's Cross Answering Testimony*

360 AWEC disagrees with Staff that the PCAM may result in a "windfall" for either party. AWEC holds the current PCAM structure should be maintained, and if any changes are to be made, the relative values of the various bands should be increased relative to the increase in the Company's NPC and base retail values since 2014. Mullins suggests that the deadband be increased to $6.9 million, the asymmetrical sharing bands increase from $6.5 million to $17.2 million,[666] and the amortization trigger to $22 million.[667]

361 Mullins disagrees with Staff that NPC variability has changed since the current PCAM was adopted.[668] Further, Mullins believes that the reduction in NPC variability from the EDAM will counterbalance any increase in NPC from the use of renewables by PacifiCorp.[669]

362 AWEC also disagrees with Staff's point that a symmetrical PCAM design is more appropriate for PacifiCorp since there are practical lower limits to NPC but no upper

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[663] Earle, Exh. RLE-7T at 3:15-19.

[664] *Id.* at 5:5-7.

[665] Earle, Exh. RLE-7T at 4:5-11.

[666] It is not clear if the suggested deadband and asymmetrical sharing bands should intersect at $6.5M or $6.9M, this seems to be a typo or oversight in AWEC's testimony.

[667] Mullins, Exh. BGM-10T at 3:1-4:12.

[668] *Id.* at 5:5-11.

[669] *Id.* at 6:17-22.

limit.[670] Mullins contends that Staff and PacifiCorp have not presented data against the asymmetry of NPC outcomes and presents the skewed distribution of Sumas gas prices as evidence for the asymmetry of NPC outcomes.[671]

363 Mullins also asserts, in contrast to Staff's points on the Company's control over NPC, that the amount of control that the Company has is irrelevant to whether or not the PCAM should exist or be modified.[672] Mullins explains:

> If PacifiCorp had complete control over NPC, that would be a stronger argument for removing the PCAM because NPC would be much more predictable. It is precisely because PacifiCorp does not control all aspects of NPC (and the size of NPC relative to PacifiCorp's overall revenue requirement) that the PCAM exists.[673]

4. Sierra Club's Cross Answering Testimony

364 Sierra Club disagrees with Staff and PacifiCorp's proposals to eliminate the deadband, specifically that eliminating the deadband may result in a "windfall" for either the customers or the utility.[674] However, witness Binz would not oppose the collapsing of the sharing band percentages into a single sharing band outside of the deadband.[675] Sierra Club recommends a sharing percentage of 80/20, since the 90/10 is a smaller sharing percentage than the current PCAM structure and 80/20 would be closer to the composite effect of the current PCAM structure.[676]

365 Binz disagrees with Staff and PacifiCorp that the increased presence of renewable generation will increase NPC, that renewables make NPC significantly more difficult to predict, and that NPC variability is increasing. Binz argues that Staff and PacifiCorp witnesses do not provide empirical evidence for these assumptions.[677] Binz asserts that renewables will affect NPC variability, but to a lesser extent than is claimed by

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[670] *Id.* at 7:5-8:13.

[671] *Id.* at 8:14-9-9.

[672] *Id.* at 11:11-18.

[673] Mullins, Exh. BGM-10T at 11:14-18.

[674] Binz, Exh. RJB-8T at 9:8-13.

[675] *Id.* at 9:14-19.

[676] *Id.* at 10:1-6.

[677] *Id.* at 4:3-5:10.

PacifiCorp and Staff witnesses.[678]

366 Sierra Club does not oppose Staff's suggestion to lower the amortization trigger amount from $17 million to $7 million.[679] Sierra Club does oppose the spreading of surcharges and sur-credits over two years, arguing that the flexibility for the Commission to make case-by-case decisions should be retained.[680]

Briefs on the Power Cost Adjustment Mechanism

367 PacifiCorp, AWEC, Public Counsel, Sierra Club, and Staff filed Post-Hearing Briefs regarding the issue of the Power Cost Adjustment Mechanism. In their Briefs, the Parties repeat many of the same arguments set forth in their testimony and exhibits. Thus, we will address only the pertinent points and arguments of the parties from each brief, in turn, in rendering our decision.

1. *PacifiCorp's Brief on the Power Cost Adjustment Mechanism*

368 In its Brief, the Company starts by describing the purpose of the PCAM. PacifiCorp declares the PCAM currently accounts for differences between forecast NPC and actual NPC using both deadbands and asymmetrical sharing bands.[681] The NPC variance first flows through a $4 million symmetrical deadband.[682] For variances between $4 million and $10 million, any credit to customers is subject to a 75/25 percent sharing band whereby 75 percent of the variance is returned to customers,[683] and any surcharge is divided between customers and the Company under a 50/50 sharing band.[684] The Company adds that any surcharge or credit exceeding $10 million is subject to a 90/10 sharing band.[685] According to PacifiCorp, after applying these deadbands and sharing bands, the variances are booked in the PCAM deferral account and are then recovered

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[678] *Id.* at 7:11-14.

[679] *Id.* at 10:7-10.

[680] *Id.* at 10:11-11:2.

[681] PacifiCorp Post-Hearing Brief at 27, ¶ 56; Painter, Exh. JP-1T at 2:3-6.

[682] *Id.* at 27, ¶ 56; Painter, Exh. JP-1T at 3:4-8.

[683] *Id.* at 27, ¶ 56; Painter, Exh. JP-1T at 3:13-16.

[684] *Id.* at 27, ¶ 56; Painter, Exh. JP-1T at 3:16-19.

[685] *Id.* at 27, ¶ 56; Painter, Exh. JP-1T at 3:13-19.

from or refunded to customers when the account balance exceeds the credit or surcharge threshold, which is currently set at $17 million.[686]

369 PacifiCorp recommends removing the deadband and asymmetrical sharing bands, which would allow the Company to fully refund to customers any overcharges or recover its prudently incurred power costs.[687] As an alternative, the Company supports Staff's recommendation to remove the deadband and replace the asymmetrical sharing bands with a single 90/10 sharing band.[688] The Company also supports Staff's recommendation to decrease the credit or surcharge threshold to $7 million.[689] PacifiCorp asserts that Staff's proposal is based in part on their agreement with the Company that the current PCAM structure is unnecessarily complicated and does not equitably share risk between the Company and customers,[690] that the increased prevalence of renewable generation will make it more difficult to forecast NPC,[691] and that many of the factors driving increased NPC are outside the Company's control.[692]

2. *AWEC's Brief on the Power Cost Adjustment Mechanism*

370 AWEC contends that PacifiCorp is proposing to eliminate all ratepayer protections in the PCAM to the detriment of its Washington customers, despite the fact that the Commission has on several occasions rejected the notion that a properly designed PCAM would include "a dollar-for-dollar annual true-up between forecast and actual power costs…."[693] AWEC takes issue with PacifiCorp's argument that difficulties with forecasts, increased renewable resources as a result of the CETA and planned participation in the EDAM constitute changed circumstances that warrant a revisitation of the policy assumptions supporting the current PCAM design.[694]

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[686] *Id.* at 27-28, ¶ 56; Painter, Exh. JP-1T at 4:2-9.

[687] *Id.* at 28, ¶ 57; Painter, Exh. JP-1T at 8:8-9:3.

[688] *Id.* at 28, ¶ 57; Painter, Exh. JP-2T at 3:2-4.

[689] *Id.* at 28, ¶ 57; Painter, Exh. JP-2T at 6:7-12.

[690] *Id.* at 28, ¶ 57; Wilson, Exh. JDW-1CT at 35:13.

[691] *Id.* at 28, ¶ 57; Wilson, Exh. JDW-1CT at 27:1-7.

[692] *Id.* at 28, ¶ 57; Wilson, Exh. JDW-1CT at 24 (Table 3).

[693] AWEC Post-Hearing Brief at 1, ¶ 2; Dockets UE-140762 et al. (consolidated), Order 08 at ¶ 108 (Mar. 25, 2015).

[694] *Id.* at 1-2, ¶ 2.

371 AWEC further argues that, contrary to PacifiCorp's assertions, the policy basis for PacifiCorp's PCAM remains sound. PacifiCorp's proposed changes to the PCAM structure are contrary to sound Commission policy, unwarranted based on the evidence in this case, and would serve to disproportionately benefit the Company's shareholders at the expense of its customers. Additionally, AWEC insists that the Commission should not be swayed by Staff's compromise approach to restructure the PCAM in a way that also reduces meaningful ratepayer protections.[695]

3. *Public Counsel's Brief on the Power Cost Adjustment Mechanism*

372 Public Counsel disagrees with PacifiCorp's request to modify the PCAM by eliminating the dead bands and sharing bands for the mechanism. Public Counsel asserts that PacifiCorp's request is contrary to the Commission's longstanding approach to power costs, in contrast to the power cost adjustment mechanisms in place in other PacifiCorp jurisdictions, and is remarkably similar to the proposal in its 2013 rate case.[696] Public Counsel points out that the Commission rejected PacifiCorp's proposal for a PCAM devoid of dead bands and sharing bands in the 2013 rate case.[697] In describing dead bands and sharing bands, the Commission said, "These are critically important elements that provide an incentive for the Company to manage carefully its power costs and that protect ratepayers in the event of extraordinary power cost excursions that are beyond the Company's ability to control."[698]

373 Public Counsel declares that the dead band is designed to capture PacifiCorp's normal NPC variability, while the sharing bands assign how extraordinary cost variances are shared between PacifiCorp and ratepayers.[699] Public Counsel also declares that dead bands and sharing bands remain important tools through which to appropriately share power cost variances between PacifiCorp and its ratepayers. It is Public Counsel's position that PacifiCorp's proposal to eliminate the dead band and sharing bands would

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[695] *Id.* at 2, ¶ 2.

[696] Public Counsel Post-Hearing Brief at 1, ¶ 2; Earle, RLE-7T at 2:1–23.

[697] *Id.* at 1-2, ¶ 2; *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light*, Docket UE-130043, Order 05: Final Order, ¶ 9.

[698] *Id.* at 2, ¶ 2; *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light*, Docket UE-130043, Order 05: Final Order, ¶ 70.

[699] *Id.* at 2, ¶ 3.

inappropriately place 100 percent of power cost variance risk on ratepayers and should be rejected.[700]

4. Sierra Club's Brief on the Power Cost Adjustment Mechanism

374 In its brief, Sierra Club observes that PacifiCorp seeks to increase rates approximately $13.8 million in year one and $21.1 million in year two,[701] in large part due to a 74 percent (total Company)/37 percent (Washington allocated) increase in its NPC.[702] Sierra Club also acknowledges that NPC has drastically increased due to a spike in natural gas prices. Sierra Club notes that "the increase in NPC is driven by increased cost of natural gas and purchased power expense" and that "both of those factors are driven by changes in the price of natural gas."[703]

375 Sierra Club asserts that natural gas prices have long been known to be volatile, swinging both up and down[704] and significantly impacting the Company's NPC. Sierra Club points out that since 2006, when the Commission first considered whether the Company's NPC could be recovered through an annual adjustment clause rather than a rate case, the Commission has made clear that PacifiCorp's shareholders must share in the risk with customers that power and fuel costs will be higher than anticipated.[705]

376 Sierra Club recounts that in 2015, the Commission implemented this requirement when it approved a PCAM for PacifiCorp with a +/- $4 million deadband and asymmetrical sharing bands.[706] After accounting for the deadband and when customers are owed a credit, up to $10 million is split 75/25 between customers and the Company and amounts over $10 million are split 90/10.[707] Sierra Club explains that when a surcharge is

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[700] *Id.* at 2, ¶ 3; Earle, Exh. RLE-7T at 2:16–21, citing Direct Test. of Chris R. McGuire, Exh. CRM-1T at 60:2.

[701] Sierra Club Post-Hearing Brief at 1, ¶ 1; Exh. JT-1T, PacifiCorp, Staff, AWEC, TEP, NWEC & Walmart, Joint Test. at 6:20-7:2.

[702] Sierra Club Post-Hearing Brief at 1, ¶ 1; Exh. MDM-1T, PacifiCorp, Direct Test. of Matthew D. McVee at 8:18-9:2.

[703] *Id.* at 1, ¶ 1; Exh. RJB-1T, at 8:2-5.

[704] *Id.* at 1, ¶ 2; Exh. RJB-1T, at 12:10-11.

[705] *Id.* at 1, ¶ 2.

[706] *Id.* at 1, ¶ 2.

[707] *Id.* at 1-2, ¶ 2.

necessary, amounts outside of the deadband up to $10 million are split 50/50 between customers and the Company and amounts above $10 million are split 90/10.[708]

377 Sierra Club details that the current deadband and asymmetrical sharing bands appropriately balance risk between shareholders and ratepayers, while also providing incentives to the Company to prudently manage its NPC through operations and maintenance, integrated resource planning, hedging agreements, efficiency measures, and other initiatives.[709] Sierra Club further details that when actual NPC spikes well above the Forecast NPC, as is the case here, the deadband and asymmetrical sharing bands work to protect customers from bearing the entire burden, as customers neither selected the resources relied upon nor had any control over NPC management.[710]

378 Sierra Club observes that the Company seeks to eliminate these cost sharing mechanisms (as it has many times before) in order to ensure dollar-for-dollar recovery for its shareholders. Sierra Club asserts that the Commission has repeatedly rejected identical requests from PacifiCorp and should do so again here. It is Sierra Club's position that the Commission should retain the current PCAM structure in full, with its current deadband and asymmetrical sharing bands. If the Commission is inclined to consider modifications to the PCAM, as suggested by Staff, Sierra Club opines that the Commission should, at a minimum, retain the current deadband and a meaningful sharing band that ensures that the Company continues to have some "skin in the game" when managing its NPC.[711]

5. *Staff's Brief on the Power Cost Adjustment Mechanism*

379 Staff recounts that the PCAM is a tool adopted in the settlement of the Company's 2014 general rate case.[712] It is a risk sharing mechanism designed to equitably distribute the risks of fluctuating power costs between the customer and Company, and to encourage effective management and reduction of power costs.[713] According to Staff, the Company noted that between 2016 and 2021, there was only one year of under-recovery; the remaining five years saw over-recovery where customers lost out on receiving at least

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[708] *Id.* at 2, ¶ 2; Exh. RJB-1T, at 10, Figure 1.

[709] *Id.* at 2, ¶ 3.

[710] Sierra Club Post-Hearing Brief at 2, ¶ 3.

[711] *Id.* at 2, ¶ 4.

[712] Staff Post-Hearing Brief at 2, ¶ 3; Painter, Exh. JP-1T at 2, FN 1.

[713] *Id.* at 2, ¶ 3.

some money in refunds due to the deadband.[714] Staff adds that PacifiCorp proposes modifying the PCAM by eliminating "the deadband and asymmetrical sharing bands from the PCAM due to the difficulty in accurately forecasting [NPC]."[715]

380 Staff also advocates for implementing changes to the PCAM beginning in 2026. Staff asserts that at the start of 2026, the Commission should modify the PCAM by eliminating the dead bands, replacing the current sharing bands with a 90/10 customer/company sharing band, and lowering the rate adjustment threshold to $7 million from the current threshold of $17 million to align with the Company's participation in the EDAM.[716] Staff further recommends that if the rate adjustment threshold is met, then recovery of only 50 percent of the deferral balance take place over the following year.[717]

381 ***Commission Determination.*** PacifiCorp claims that prior to adopting the current PCAM, the Commission rejected proposals to create a PCAM without deadbands or sharing bands.[718] The Company also claims that the Commission has not reevaluated the deadbands and sharing bands since they were adopted in 2015 and conditions have changed since that time that have made accurately forecasting NPC substantially more difficult. The Company adds that, based on actual experience, the current PCAM structure does not equitably share risk between the Company and customers and results in substantial customer losses. For these reasons, PacifiCorp argues that the Commission should either eliminate the deadbands and sharing bands or adopt Staff's 90/10 sharing bands.[719]

382 Among the parties, Staff seems to be in accord with PacifiCorp that there should be some modification to the PCAM. Specifically, Staff advocates for eliminating the dead bands and instituting a 90/10 customer/company sharing band.[720] Staff reasons that the Company's transition to the EDAM will result in a smaller portion of the decisions impacting the NPC being in the Company's control, and thus reduced risk sharing is

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[714] *Id.* at 2, ¶ 3; Painter, Exh. JP-1T at 8, Figure 1.

[715] *Id.* at 2, ¶ 3; Painter, Exh. JP-1T at 1:18-21.

[716] Staff Post-Hearing Brief at 1, ¶ 1.

[717] *Id.* at 1, ¶ 1; Wilson, Exh. JDW-1CT at 37:16-38:4.

[718] PacifiCorp Post-Hearing Brief at 28, ¶ 58; See Docket UE-140762, Order 08 at ¶¶ 105-107 (summarizing prior PCAM proposals).

[719] *Id.* at 28-29, ¶ 58.

[720] Staff Post-Hearing Brief at 8, ¶ 14.

proper. Staff also believes that there is evidence that under the current structure, PacifiCorp customers are routinely losing out on refunds because of the dead and asymmetric sharing bands.[721]

383 On the other hand, Sierra Club, Public Counsel and AWEC support the PCAM remaining unchanged.[722] Sierra Club asserts that in the event the Commission should consider modifications to the PCAM, the Commission should not adopt Staff's recommendations, which directly contradict the Commission's prior orders and do not adequately protect customers.[723] Public Counsel, for its part, argues that is contrary to the Commission's longstanding approach to power costs, in contrast to the power cost adjustment mechanisms in place in other PacifiCorp jurisdictions, and is remarkably similar to the proposal in its 2013 rate case,[724] which the Commission rejected. AWEC shares similar reasoning and arguments with Sierra Club and Public Counsel, and AWEC adds that the Commission should not be swayed by Staff's compromise approach to restructure the PCAM in a way that also reduces meaningful ratepayer protections.[725]

384 After reviewing the testimony, exhibits and parties' briefs on the PCAM, we find the position articulated by Sierra Club, Public Counsel and AWEC persuasive.

385 In prior Orders, the Commission has rejected PacifiCorp's PCAM proposals similar to this one, such as Order 05 of UE-130043, in which the Commission stated:

> We reject PacifiCorp's proposed Power Cost Adjustment Mechanism (PCAM). The Company failed to demonstrate sufficient power cost variability to warrant approval of such a mechanism. Moreover, the Company's proposal fails to include design elements the Commission previously has directed PacifiCorp to include in any PCAM proposal.[726]

386 In that order, the Commission further declared:

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[721] *Id.* at 8, ¶ 14.

[722] Sierra Club Post-Hearing Brief at 7-8, ¶ 10; Public Counsel Post-Hearing Brief at 1-2, ¶ 2-3; AWEC Post-Hearing Brief at 1-2, ¶ 2.

[723] *Id.* at 7-8, ¶ 10.

[724] Public Counsel Post-Hearing Brief at 1, ¶ 2.

[725] AWEC Post-Hearing Brief at 2, ¶ 2.

[726] *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light*, Docket UE-130043, Order 05: Final Order, ¶ 9.

Indeed, the Company's proposal here is even more at odds with the direction the Commission has given PacifiCorp than its proposals in prior cases that have been rejected. Contrary to express Commission direction, and in contrast to the power cost adjustment mechanisms approved in other PacifiCorp jurisdictions, the Company's proposal here includes neither dead bands nor sharing bands. These are critically important elements that provide an incentive for the Company to manage carefully its power costs and that protect ratepayers in the event of extraordinary power cost excursions that are beyond the Company's ability to control.[727]

387 Later in Order 08 of UE-140762, the Commission again declared and directed the Company to provide:

> [A] full PCAM that is designed to take into account the cost performance of the Company's entire resource portfolio and market purchase activities, that appropriately balances risks between the Company and its customers, and that provides Pacific Power with a continuing incentive to focus on managing its power resources rather than arguing repeatedly that it is beyond its ability to do so.[728]

388 In our review of the arguments raised by PacifiCorp, we examined three salient points that were set forth:

> (i) the PCAM's deadband and sharing bands are harming customers; [729]
> (ii) the variability of NPC is outside of the Company's control and increasing due to higher penetrations of renewable energy;[730] and
> (iii) the Company's NPC will be driven as low as possible by the anticipated Extended Day-Ahead Market ("EDAM").[731]

(i) Whether the PCAM's Deadband and Sharing Bands Are Harming Customers

[727] *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light*, Docket UE-130043, Order 05: Final Order, ¶ 70.

[728] *WUTC v. PacifiCorp*, Docket No. UE-140762, p. 57, ¶ 135.

[729] Painter, Exh. JP-1T, at 7:13-18.

[730] *Id.* at 20:8-22.

[731] *Id.* at 28:13-20.

389 With regard to the first argument, as we have pointed out elsewhere in this order, the PCAM is a risk sharing mechanism designed to distribute equitably the risks of fluctuating power costs between the customer and Company, and to encourage effective management and reduction of power costs.[732] Deadbands and sharing bands are cost sharing tools that prevent the utility customer from absorbing the risk from fuel adjustment mechanisms, like the PCAM, that benefit utilities.

390 Without the guardrails of deadbands and sharing bands, the utility no longer has an economic stake in a major resource decision. As a result, the utility is more likely to ignore fossil fuel price volatility because it knows, regardless of price fluctuations, that it will be made whole by ratepayers. This approach creates a circumstance that one witness termed a "moral hazard"[733] where one party is willing to engage in risky behavior or not act in good faith because it knows the other party, in this case the ratepayer, will bear the economic consequences.[734]

391 Based on our review of the Company's current deadband and asymmetrical sharing bands, these mechanisms are acting as intended. In fact, between 2016 and 2020, base NPC was overestimated, resulting in a refund to customers.[735] Moreover, we observe that while PacifiCorp was permitted to retain a portion of the over-collection, this is precisely built into the PCAM as an incentive to encourage PacifiCorp to reduce costs, which even Staff witness John Wilson, who proposes changes to the PCAM, concedes appears to be working.[736] On the other hand, in 2021, the Forecast NPC was underestimated, triggering a surcharge on customer bills, which was "very likely caused by the increase in natural gas prices."[737] This seems to illustrate that the PCAM is working as intended, particularly the deadbands and sharing bands, as customers were not charged the entirety of the sharp increase in fuel costs; instead, PacifiCorp was required to absorb some of those costs.

392 In addition, based on our analysis of the evidence, the PCAM's current operation does not indicate that either the Company or customers receive a "windfall" in any given

[732] Staff Post-Hearing Brief at 2, ¶ 3.

[733] Exh. RJB-1T at 22:3-11.

[734] *Id.* at 22:13-16.

[735] Exh. RJB-8T, at 8:3-6.

[736] Exh. JDW-1CT at 34:9-11.

[737] Exh. RJB-8T at 8:8-9.

year.[738] However, we gather from testimony that the +/- $4 million deadband, which was established "as a percentage equal to 3.45% of PacifiCorp's NPC at the time of the 2014 general rate case, has decreased since that proceeding." [739] As the NPC has increased over the years since the 2014 GRC, the deadband percentage has decreased. We see the same effect on the asymmetrical sharing bands and the amortization trigger as well.[740] We were satisfied with the deadband, sharing band and amortization percentages established in UE-140762, and recognize that some adjustment must be made in order for the PCAM to continuing operating as intended. Therefore, the deadband and sharing bands shall remain unchanged, but we encourage the parties to discuss when adjustments should be made to address the reduction in overall benefits.[741]

393 Concerning the amortization trigger of $17 million, Staff recommends that the Commission reduce the amortization trigger from $17 million to $7 million and spread surcharges or sur-credits over two years.[742] Sierra Club does not oppose lowering the amortization but recommends that the Commission retain its authority to determine on a case-by-case basis whether to spread surcharges or sur-credits over multiple years.[743] No other parties have raised this issue. Upon review, we believe that amortization threshold should remain intact at $17 million. We will retain our authority to determine on a case-by-case basis whether to spread surcharges or sur-credits over multiple years. Finally, we will revisit deadbands, sharing bands and amortization triggers after PacifiCorp joins the EDAM, and the Company files its next rate-case application. We encourage the parties to provide the Commission with comprehensive and historical data for our consideration and evaluation, at that time.

(ii) Whether the variability of NPC is Outside of the Company's Control and Increasing Due to Higher Penetrations of Renewable Energy

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[738] Exh. BGM-10T at 10:2-9; (explaining that the PCAM recognizes the assumption of risk whereas the concept of a "windfall" suggests "receipt of something that is not earned[;]" yet, the PCAM allows PacifiCorp to retain some NPC savings when Forecast NPC exceeds Actual NPC because "PacifiCorp is also assuming the risk of under-recovery.").

[739] *Id.* at 3:3-10.

[740] *Id.* at 3:11-4:2.

[741] *Id.* at 3:8-4:2.

[742] Staff Post-Hearing Brief at 8-9, ¶ 14; Wilson, JDW-1CT at 37:16-18.

[743] Sierra Club Brief at 19, ¶ 29.

394 Turning now to the issue of NPC variability due to increased renewable energy as a basis for removing the deadbands and sharing bands, we disagree that removing these customer protections is the solution. In fact, we believe that if variability is as pronounced as PacifiCorp argues then the need for such protection is even greater for customers. Moreover, we are reminded that NPC has long experienced volatility and is, in fact, one of the primary reasons why the Commission authorized PacifiCorp's PCAM, with its required deadband and asymmetrical sharing bands.[744] Each of the many times that PacifiCorp requested authorization for a fuel cost adjustment mechanism, the Company cited NPC volatility as justification for such a mechanism,[745] and the Commission noted in its 2007 decision that "PacifiCorp's circumstances include significant exposure to variability in power costs and this variability is sufficient to justify a PCAM."[746]

395 Also, we are persuaded by testimony that it is the volatility in natural gas prices that are a greater contributor to the inaccuracy of NPC forecasts, not the increase in renewable energy.[747] We note that PacifiCorp attempts to distinguish NPC variability when the PCAM was originally authorized from the variability seen today by arguing that the increased penetration of renewable energy exacerbates the volatility,[748] and, according to the Company, it should be protected from the risk of under-recovery. Yet, the evidence seems to indicate that that NPC swings are caused by movement in the natural gas market, which is often unpredictable and influenced by global events.[749] As Sierra Club witness Binz explained, "[h]igher natural gas prices affect almost every element of the

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744 Exh. MDM-14X, Order 08, UE-140762, UE-140617, UE-131384, UE-140094 (Consol.) at 56, para. 121(Mar. 25, 2015) [hereinafter "MDM-14X"].

745 Exh. MDM-13X Order 08, UE-140762, UE-140617, UE-131384, UE-140094 (Consol.) at 64, para. 157 (Mar. 25, 2015) [hereinafter "MDM-13X"] ("PacifiCorp argues that it 'needs a PCAM in Washington to address its substantial NPC variability, which is caused primarily by factors outside the Company's control.'").

746 Exh. MDM-12X Order 08, UE-140762, UE-140617, UE-131384, UE-140094 (Consol.) at 16-17, para. 59 (Mar. 25, 2015) [hereinafter "MDM-12X"].

747 Exh. RJB-1T at 19:6-15; Exh. JP-1T, at 20:8-22.

748 Exh. JP-1T at 11:7-12:3 (arguing that regional power market price forecasts in the western interconnection have become less accurate because the western interconnection "has evolved from one dominated by controllable thermal generation to one dominated by intermittent weather-dependent generation…").

749 Exh RJB-1T at 13:3-7 (noting the war in Ukraine's impact on natural gas).

NPC calculation[,]"[750] and markets have seen average week-to-week price swings from a low of $1.34 to a high of $14.49.[751]

396 In contrast, evidence presented in this case suggests that renewable energy actually drives NPC down. PacifiCorp testimony in a recent Wyoming proceeding explained that the 2024 NPC forecast would be $343 million (total Company) higher without new renewable energy resources acquired since 2000,[752] and Company witness Mitchell explained in this case that "regional power market prices," which are a major component of total NPC, "are lowered on average by increased penetration of renewable resources across the western interconnection."[753]

397 Additionally, the evidence indicates that PacifiCorp's claim regarding the total impact of renewables on the accurate forecasting of NPC may be exaggerated.[754] We believe that renewable generation benefits from geographic diversity,[755] and output becomes more regular over long periods of time.[756] As a multi-state covering a large geographic

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[750] *Id.* at 13:3-4.

[751] *Id.* at 17:7-9; See also 11, Figure 2 (depicting average weekly natural gas prices from 1997-2023 at the Henry Hub as of Sept. 6, 2023).

[752] *Id.* at 18:6-16 (quoting PacifiCorp witness Ramon Mitchell testimony in PacifiCorp's 2023 GRC in Wyoming).

[753] Exh. RJM-1CTr at 8:3-4.

[754] Staff witness John Wilson also agrees that PacifiCorp's predictions regarding renewable energy's impact on NPC fluctuation is overstated. *See* Exh. JDW-1CT at 27:8-11 ("However, I think that the effect [of renewable energy on variances between Forecast and Actual NPC] will be somewhat less than Company witness Painter implies because he does not place the effect of increasing renewables on NPC in context: By replacing portions of other resources currently in NPC, the variability of those resource costs (e.g., fuel and market power) will be reduced.").

[755] Exh. RJB-1T at 15:7-11. While PacifiCorp notes that "huge areas can and will experience similar weather conditions," Exh. JP-1T at 20:3-4, it is largely undisputed that geographic diversity is a great benefit to renewable energy, which the EDAM will significantly help to realize. *See, e.g.*, Exh. BGM-11, Brattle EDAM Simulations: PacifiCorp Results at 5, 14 (finding that the EDAM will result in 2.4 TWh in reduced renewable generation curtailments and will decrease the reserve requirement by about 2 GW/h "due to the diversity benefit achieved by the EDAM footprint").

[756] Exh. RJB-1T at 15:12-13; *see also* Exh. JP-1T at 13, n.12.

footprint, the Company is in a position to capitalize on renewable operations and will realize further benefits as it enters into region-wide markets. We think this will increase the reliability of renewable energy forecasts going forward.

398 With regard to forecasting the exact renewable output for wind, we acknowledge that it can be challenging. Nevertheless, the hours of the year in which this forecasting difficulty will have much significance on total NPC are limited. As Mr. Binz explained, in a typical system load duration curve, the vast majority of the year falls into average system load.[757] Periods of true peak hours are relatively few, making up only six percent of the total number of hours in the year in Mr. Binz's illustrative example in Cross-Answering Testimony.[758] Because "[u]tility planners know that wind generation tends not to track with peak demand[,] they assign a low capacity-value to wind" and, if they are acting prudently, plan to meet peak demand with resources with higher capacity factors.[759] "This means that any potential large cost impact of variation in renewable generation will be restricted to those hours when demand is high and, even then, the effect is likely to be muted by the availability of peaking resources."[760]

399 Consequently, we conclude that any variability between Forecast and Actual NPC caused by renewable energy is small and not outside the scope of normal NPC fluctuation. In that vein, we reject the argument that the lack of control over variability and higher penetrations of renewable energy are causes for the increase of NPC.

(iii) Whether the Company's NPC Will Be Driven As Low As Possible by the Anticipated Extended Day-Ahead Market (EDAM)

400 Finally, we address PacifiCorp's argument that the Company's NPC will be driven as low as possible by the anticipated start of the EDAM. According to PacifiCorp witness Painter, the EDAM is an initiative by the CAISO to extend participation of a developed organized day-ahead, hour ahead and intra hour market to the region. The EDAM will provide economically optimal and least cost, resource schedules, startup/shutdown

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[757] Exh. RJB-8T at 6:3-5.

[758] *Id.* at 6:5-7.

[759] *Id.* at 6:8-7:4.

[760] *Id.* at 7:5-7.

instructions, and other core functions integral to organized markets across the footprints of Independent System Operators and Regional Transmission Organizations.[761]

401 PacifiCorp argues that once the Company enters the EDAM it will "no longer control the economic dispatch of its resources" and "the deadband and asymmetrical sharing bands [will] no longer [be] effective or necessary to incentivize the Company to effectively manage or reduce power costs."[762] In response, Sierra Club witness Binz explained that although the EDAM will economically dispatch PacifiCorp's generating resources, the Company will still have control over what mix of resources it brings to the EDAM, and it is the mix of resources that largely determines NPC.[763] In other words, PacifiCorp will continue to control how it manages total NPC and responds to NPC variability. AWEC witness Mullins also disagrees with the Company stating, "Simply pointing to the fact that there are uncertain elements involved in managing NPC, while ignoring PacifiCorp's responsibility for managing NPC in response to those uncertain elements, is like letting go of the steering wheel while driving on the freeway."[764]

402 We find PacifiCorp's arguments on this issue unsettling. The Company's argument seem to echo those raised in previous proceedings in which it has cited to its lack of control over NPC as justification to request a dollar-for-dollar true up mechanism from this Commission.[765] Hearkening back to our proceeding in Docket UE-130043, we cautioned the Company that these types of arguments "suggests a loss of perspective on the Company's responsibility to manage its power costs using integrated resource planning, carefully structured hedging practices, conservation initiatives, and other means available to PacifiCorp and other utilities."[766] PacifiCorp's duty and ability to manage its power costs are not curtailed by entrance into the EDAM. To that point, Public Counsel witness Earle explained, "whether units are bid into EDAM or not, there is still optimization for

[761] Exh. JP-1T at 25:6-11.

[762] Exh. JP-1T at 6:1-5.

[763] Exh. RJB-1T at 24:8-21.

[764] Exh. BGM-10T at 11:3-6.

[765] Exh. MDM-11X Order 08, UE-140762, UE-140617, UE-131384, UE-140094 (Consol.) at 29, para. 72 (Mar. 25, 2015) [hereinafter "MDM-11X"] (PacifiCorp arguing that net power costs may vary due to factors outside of the Company's control).

[766] *WUTC v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-130043, Order 05, p. 67, ¶ 172.

the Company to perform in terms of scheduling maintenance outages, optimal maintenance of equipment to maximize capacity factors and minimize forced outages, and improving heat rates at plants that burn fuel."[767]

403 Staff witness Wilson, despite Staff's support of PacifiCorp on the PCAM, came to a similar conclusion regarding the amount of control that will remain with the Company. Wilson states, "several significant drivers will remain within PacifiCorp's control[,]" including plant operating practices, operating and maintenance practices, and resource planning.[768] AWEC witness Mullins adds that "organized markets are expected to increase the predictability and reduce the volatility [of] NPC." [769] Overall, we believe that taking into consideration all of these factors, they should actually help to increase the accuracy of PacifiCorp's forecasting, leading to less deviation between Forecast NPC and Actual NPC.

404 Thus, we conclude that neither the deadbands nor the sharing bands shall be removed nor modified. Furthermore, as PacifiCorp is not entering the EDAM until 2026, at the end of the MYRP discussed in this order, we find no reason to make any adjustments to the PCAM at this time. Therefore, the PCAM shall remain in its current form.

FINDINGS OF FACT

405 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefor, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

406 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric companies.

[767] Earl, Exh. RLE-1CT at 6:4-7.

[768] Exh. JDW-1CT at 24:11-12; id. at Table 3.

[769] Mullins, Exh. BGM-1T at 71:4-5.

407 (2) PacifiCorp is a "public service company" and an "electrical company" as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. PacifiCorp provides electric utility service to customers in Washington.

408 (3) PacifiCorp's currently effective rates were determined on the basis of the Commission's Final Order in consolidated Dockets UE-191024, UE-190750, UE-190929, UE-190981, UE-180778.

409 (4) PacifiCorp's currently effective rates were further updated in the Company's 2021 PCORC in Docket UE-210402 and limited issue rate filing (LIRF) in consolidated Dockets UE-210532 and UE-210328.

410 (5) On March 17, 2023, PacifiCorp filed this general rate case with the Commission proposing revisions to its currently effective Tariff WN U-76.

411 (6) In its initial filing, PacifiCorp requested a two-year rate plan with an increase in revenues of approximately $26.8 million for rate year one and an increase of approximately $27.9 million for rate year two. Under the Company's proposal, the average residential electric customer using 1,200 kilowatt-hours per month would receive a $12.11 increase in the first year, followed by a $9.34 increase in the second year.

412 (7) The evidence demonstrates that a Multi-Year Rate Plan (MYRP) will provide for more timely recovery of costs and strengthen PacifiCorp's incentives to contain costs.

413 (8) The Settlement reasonably and appropriately requires PacifiCorp to develop a distributional equity analysis and to develop costs and benefits for incorporating equity into its capital planning processes.

414 (9) The Settlement's enhancements to Low Income Bill Assistance and other terms related to low-income customers weigh in favor of approving the Settlement as consistent with equity and the public interest.

415 (10) The evidence supports the Settlement's proposed overall rate of return of 7.29 percent as reasonable and resulting in fair, just, reasonable, and sufficient rates.

416 (10) Public Counsel's proposed rate of return of 7.13 percent is unreasonably low and not supported by persuasive cost of capital modeling.

417 (11) The Settlement's provisions for performance metrics are reasonable and supported by an appropriate record, subject to the additional metrics required by the Commission to account for other statutory factors.

418 (12) The Settlement provides an unreasonably long timeframe for allowing PacifiCorp until its next general rate case to investigate the costs of providing data at the census tract level.

419 (13) The forecasted costs for Jim Bridger Units 1 and 2 included in the Settlement are supported by an appropriate record.

420 (14) The Settlement provides a reasonable process for reviewing provisional plant over the course of the MYRP.

421 (15) The record evidence supports that PacifiCorp use the rate effective year timeframe instead of the calendar year timeframe for forecasting.

422 (16) The record evidence supports accepting PacifiCorp's proposed Net Power Cost forecast of $190.2 million.

423 (17) The record evidence raises concerns regarding the information asymmetry between PacifiCorp, the other parties, and the Commission regarding the DA/RT adjustment.

424 (18) The record evidence supports adjusting the exit date of the Jim Bridger units from December 31, 2023, to December 31, 2025.

425 (19) The record evidence supports PacifiCorp' proposed adjustments for the Bridger reclamation and depreciation expenses.

426 (20) AWEC's challenge regarding wheeling revenue from the Gateway South transmission line was presented only at the hearing and in post-hearing briefing.

427 (21) The evidence establishes that the Power Cost Adjustment Mechanism's dead bands, sharing bands, and refund threshold equitably distribute risks of fluctuating power costs and encourage prudent decision making.

428 (22) PacifiCorp's currently effective rates do not provide sufficient revenue to recover the costs of its operations and provide a rate of return adequate to compensate investors at a level commensurate to what they might expect to earn on other investments bearing similar risks.

CONCLUSIONS OF LAW

429 Having discussed above all matters material to this decision, and having stated the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:

430 (1) The Commission has jurisdiction over the subject matter of, and parties to, these proceedings.

431 (2) PacifiCorp is an electric company and a public service company subject to Commission jurisdiction.

432 (3) At any hearing involving a proposed change in a tariff schedule the effect of which would be to increase any rate, charge, rental, or toll theretofore charged, the burden of proof to show that such increase is just and reasonable will be upon the public service company. RCW 80.04.130(4). The Commission's determination of whether the Company has carried its burden is adjudged on the basis of the full evidentiary record.

433 (4) PacifiCorp's existing rates for electric service are neither fair, just, and reasonable, nor sufficient, and should be adjusted prospectively after the date of this Order.

434 (5) PacifiCorp proposed a multi-year rate plan as required by RCW 80.28.425.

435 (6) The Commission should authorize and require PacifiCorp to replace the existing decoupling earnings test with the earnings test provided in RCW 80.28.425(6), consistent with the Settlement and RCW 80.28.425(6).

436 (7) The Commission should adopt the Settlement's terms related to equity and the development of equity frameworks for future filings by PacifiCorp, rather than rejecting the Settlement for failing to provide a more detailed equity analysis of the proposed rate increase.

437 (8) While the consideration of equity pursuant to RCW 80.20.425(1) is distinct from the legal requirements pertaining to low-income customer programs, the Commission's equity analysis naturally focuses on low-income customer programs, among other broader social, economic, and environmental impacts related to utility rates, services, and practices.

438 (9) By providing performance metrics, the Settlement provides the Commission a set of performance measures that will be used to assess PacifiCorp's performance as required by RCW 80.28.425(7).